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Full contents | Subscribe
Enlarge current cover
Past issues/regional covers

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters to the editor
Blogs
Columns
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings Go
Cities Guide Go

SPECIAL REPORTS
BUSINESS
Management
Business Education
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
BOOKS & ARTS
Style Guide
PEOPLE
Obituary
MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
Chart Gallery
DIVERSIONS
Correspondent's Diary
RESEARCH TOOLS
AUDIO
DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
Screensaver
CLASSIFIED ADS
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On the cover
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Previous print editions
Jul 14th 2007
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Jun 23rd 2007
Jun 16th 2007

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The world this week
Politics this week
Business this week
KAL's cartoon

Leaders
Nuclear proliferation
The riddle of Iran

Aerospace
The meaning of EADS

Monetary policy
From helicopter to hawk

Turkey's election
Of mullahs and majors

The Democrats
The cross of gold

Russia and the Litvinenko case
Learning from the cold war

Letters
On American power, India, Germany, Niels Bohr, pharmaceuticals, flying turkeys, health warnings

Briefing
Turkey's election
A battle for the future

United States
The candidates: John Edwards
Man of the left

Health care
A capital idea

Ron Paul
Paul the apostate

New York's firemen
The swift-trucking of Rudy

The Catholic church
Doing penance

Compensation after Katrina
By wind or by water

Lexington
Let the blowhards blow

The Americas
Education in Mexico
"The teacher" holds back the pupils

Venezuela
Broadcast battles

Brazil
An accident waiting to happen?

Panama
Glitter and graft

Asia
Pakistan
Politics by other means

Dealing with North Korea, continued
Tempting Mr Kim

Japan
Longing for Lionheart

AIDS in India
Not half as bad

Bangladesh
Lock up your leading ladies

Malaysian conservation
Dolly goes swimming

A special report on Iran
The revolution strikes back
Men of principle
Bombs away
The big squeeze
Only engage
The verdict of Qom
Khomeini's children
Sources and acknowledgements
Offer to readers

Business
Business in Africa
Looming difficulties

Corporate scandals
Bush whacked

Aluminium
Gimme smelter

Cigarettes
Third time lucky

Alitalia
Down to earth with a bump

Clean tech in China
Green shoots

Mobile television
The third screen

Face value
Book value

Award

Briefing
Talent management
Accounting for good people

Women and work
Breaks and ladders

Finance & Economics
Monetary policy
Allowing himself a smile

Buttonwood
Vanishing vigilantes

Private equity
Walker's way

Austrian banks
Viennese cocktail

The oil price
The visible hand on the tap

Accountancy
Bearing it all

Economics focus
Creeps and bounds

Correction: Big Mac Index

Science & Technology
Computer security
The bounty hunters

Fatigue
Killing time

Papua New Guinea
Left behind by Asia's rise

Middle East & Africa

The Palestinians
Who's in charge?

The Palestinians
The West Bank pimpernel pops up

Nigeria
Shilly-shally

Somalia
Reconciliation is as elusive as ever

Côte d'Ivoire
A peace plan under threat

Zimbabwe
Getting horny

Advertisement

Europe

France's Socialist Party
Royal jelly

Treasure-hunting in Spain
Golden hoards

France and work
Sweating in Sarkoland

Minorities in Germany
The integration dilemma

Rebranding Berlin
In search of the 1920s

Charlemagne
Linguistic follies

Correction: Zenica

Britain

Anglo-Russian relations
The big freeze

London mayoral candidates
Boris enters the fray

Punishing Muslim protesters
Crackdown

London Underground
Down the tube

Defence
Carriers without Harriers

Housing supply
The English paradox

Apprenticeships
How the other half learn

Interest rates
Great expectations

Bagehot
Yo, Brown!

Correction: Law firms

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International

Papal diplomacy
God's ambassadors

The West and a grumpy Russia
Cutting arms cuts

Advertisement

Mobile commerce
Pay-as-you-talk

Human evolution
The skull man

Books & Arts

The partition of India
The unruly end of empire

The craft of journalism
Dispelling one's own ignorance

The Depression
Sticking pins into an icon

New fiction
Life among the frozen Chosen

Israel and Palestine
The one-state option

Cabaret in New York
A circus for grown-ups

Obituary

Lady Bird Johnson

Economic and Financial Indicators

Overview

Output, prices and jobs

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Politics this week

Jul 19th 2007
From The Economist print edition

Reuters

General Pervez Musharraf revealed that he intends to seek re-election as **Pakistan's** president later this year without stepping down as army chief. He told newspaper editors that a purely civilian government would not be strong enough to control extremists. His comments came as a series of attacks, mainly on security forces in North-West Frontier Province, claimed more than 130 lives. See article

Police in **Bangladesh** arrested Sheikh Hasina Wajed, a former prime minister and leader of the Awami League, the main opposition to the civilian government whose term ended last year. She faces corruption charges and is accused of complicity in the killings of four political opponents. The army-backed interim government that took power in January has promised to clean up Bangladeshi politics. Sheikh Hasina's rival, Khaleda Zia of the Bangladesh Nationalist Party, also faces charges. See article

International inspectors confirmed that **North Korea's** plutonium-producing nuclear reactor at Yongbyon, north of the capital, Pyongyang, and four other facilities there have been shut off. A first instalment of fuel oil promised to North Korea in return for ending its nuclear programme arrived, and six-country talks resumed in Beijing. See article

A constitutional convention reopened in **Myanmar**. It has been meeting on and off since 1993, but is now likely to finish in two months and put a new charter to a referendum. The ruling junta was trounced in an election in 1990 but refused to honour the result. The main opposition National League for Democracy is boycotting the convention, which will entrench the army's role.

An **earthquake** rocked Kashiwazaki in Japan, killing ten people. A nuclear plant was damaged and leaked water containing radioactive compounds, raising safety concerns about Japanese facilities.

Right noises

George Bush called for a conference to relaunch a peace process to settle the **Israel-Palestine** conflict. He also took steps to boost the Palestinian president, Mahmoud Abbas, and his secular Fatah group in the West Bank, in the hope of weakening its Islamist rivals in Hamas, which took over the Gaza Strip last month. Mr Abbas said he would call for new elections. See article

Reuters

At least 85 people were killed by bomb attacks in the disputed city of Kirkuk, which is controlled by **Iraq's Kurds**. The biggest blast, detonated by a suicide-bomber in a lorry, hit an office of the party led by Iraq's president, Jalal Talabani, a Kurd.

A **Libyan** court commuted the death sentences passed on five Bulgarian nurses and a Palestinian doctor to life imprisonment. In a trial widely condemned abroad as unfair, the six have been convicted of deliberately infecting hundreds of Libyan children with HIV.

A national reconciliation conference opened in **Somalia's** embattled capital, Mogadishu, but proceedings were promptly postponed until the end of the month, with no sign of any progress. See article

Disastrous aviation

In **Brazil**, a TAM Airbus jet on an internal flight overshot the recently resurfaced runway at São Paulo's commuter airport and exploded on contact with a fuel and cargo warehouse, killing all 186 people on board and several on the ground. See article

Argentina's economy minister, Felisa Miceli, resigned after prosecutors ordered her to testify about $64,000 in cash found in a bag in her office bathroom. Her replacement, Gustavo Peirano, is expected to retain the policy of an undervalued exchange rate and artificially low energy tariffs.

In **Venezuela**, RCTV, an opposition-supporting television station which closed down in May after its broadcasting licence was not renewed by Hugo Chávez's leftist government, took to the air again as a cable and satellite channel. See article

Bolivia's president, Evo Morales, said he planned to nationalise the country's railways, which have been run for the past decade by investors from Chile and the United States.

On a visit to Latin America, **Canada's** Conservative prime minister, Stephen Harper, offered to start free-trade talks with Colombia. That was in pointed contrast to the Democrat-controlled United States Congress, whose leadership has refused to ratify a trade agreement with Colombia. See article

The jaw-jaw about the war-war

After an all-night session in the American **Senate**, the Republicans easily denied the Democrats the 60 votes they needed to proceed with a plan to pull troops out of Iraq. The debate on the defence-spending bill to which the plan is attached was deferred until September.

A court in Los Angeles accepted a $660m settlement between the local **Catholic** archdiocese, America's biggest, and victims who allege sexual abuse by clergy. It is the largest such payout in a string of national sex-abuse scandals over the past few years involving the church. See article

Jim Gilmore, a former governor of Virginia, pulled out of the race for the Republican presidential nomination. Very few people knew he had ever been in it.

Nyet

Britain expelled four **Russian diplomats**. The British complained that the Russian authorities had not co-operated in an investigation into the murder of Alexander Litvinenko, a former KGB agent, by polonium poisoning in London last year. See article

An independent candidate running in **Turkey's** general election was shot dead in Istanbul. The campaign for the election, on July 22nd, has been unusually tense. See article

Poland's president, Lech Kaczynski, met his American counterpart, George Bush, in Washington, DC. Mr Kaczynski strongly defended the American plan to site a new missile-defence system in Poland over fierce objections from the Russians. See article

Athens was engulfed in thick smoke after strong winds and a heatwave set off dozens of forest fires. Ecologists said it would take 100 years to repair the environmental damage.

Britain's pagan groups expressed outrage at the depiction of a doughnut-wielding Homer Simpson next to the Cerne Abbas Giant hill-figure in Dorset, a pagan symbol of fertility. The painted Simpson is publicising a film, but the promoters promised that the persistent summer rains would wash him away.

Rex Features

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Business this week

Jul 19th 2007
From The Economist print edition

EADS announced that it was streamlining its management structure. The European aerospace and defence company has been hampered by meddling politicians in France and Germany, its primary backers, and the dual-management structure was criticised by many for being unwieldy. Louis Gallois will become EADS's sole chief executive. Tom Enders, currently EADS's other co-chief executive, becomes head of Airbus. See article

The board of **Altadis**, a Franco-Spanish cigarette company, accepted a third takeover offer from Britain's **Imperial Tobacco**. The *euro*16.2 billion ($22.4 billion) deal gives Imperial Altadis's continental and Moroccan operations and its profitable cigars business (it has a 50% stake in Cuba's Habanos). Imperial's bid trumped a rival offer from CVC Capital Partners, thus raising further questions about whether the private-equity boom was tapering off. See article

Plastic fantastic

There was another big deal in the plastics industry. **Basell**, a private firm which is owned by Len Blavatnik's Access Industries, agreed to meld with **Lyondell Chemical**, based in Houston, in a transaction valued at $19 billion. The acquisition is welcome news for Mr Blavatnik, an industrialist who sits on the boards of RUSAL, Russia's biggest aluminium company, and TNK-BP, BP's joint venture in Russia. Last week Apollo Management, a private-equity firm, managed to tempt **Huntsman**, a chemicals company, away from an agreed takeover by Mr Blavatnik with a $10.6 billion offer.

J. Sainsbury received a preliminary approach from a property investment-fund that is owned by the **government of Qatar** and which already holds a 25% stake in the British supermarket chain. The retailer rejected a putative private-equity buy-out in April.

The chief executive of **Whole Foods Market**, America's biggest natural- and organic-food retailer, apologised for posting derisive comments about **Wild Oats Markets**, a rival with which it wants to merge, on an online financial message-board. John Mackey said the remarks, which were posted under a pseudonym and are now being investigated by regulators, were an “error of judgment”. See article

The end of the affair?

EMI recommended that shareholders accept a buy-out offer from Terra Firma Capital Partners after **Warner Music** decided not to make a rival bid. The British and American music companies have danced around a merger several times over the past few years.

A consortium of banks led by **Royal Bank of Scotland** sweetened its *euro*71 billion ($95 billion) bid for ABN AMRO by raising the cash proportion of its offer. All eyes are on the response of Britain's **Barclays**, which first unveiled a takeover plan in an all-share offer that was accepted by the Dutch bank in April.

Merrill Lynch and **JPMorgan Chase** reported a rise in second-quarter net profit of, respectively, 31% and 20% compared with a year earlier. The investment-banking and asset-management businesses of both firms remain robust, but worries persist about their future exposure to defaults in America's housing market.

Rupert Murdoch came a step closer to taking over **Dow Jones** when the company's board recommended to shareholders a $5 billion offer from **News Corp**, Mr Murdoch's media conglomerate. The remaining obstacle to a deal is the Bancroft family, which controls 64% of the voting shares in Dow Jones. It will meet next week.

Japan's best-known shareholder activist, **Yoshiaki Murakami**, a former trade- ministry official, was found guilty of insider trading and sentenced to two years in prison. His Murakami Fund was charged with

receiving inside information from livedoor, whose boss, Takafumi Horie, is appealing against a separate sentence. Prison convictions in white-collar cases are rare but, unusually for Japan, both men pleaded innocent.

China's GDP in the second quarter grew at its fastest rate in 11 years, and inflation rose to 4.4% in the year to June. Analysts debated what, if anything, the government could do to cool the economy.

Good for (some) tourists

The **euro** reached another record high against the **dollar** as investors shied away from American assets amid concerns about the fallout from losses in America's subprime-mortgage market. Meanwhile, Nicolas Sarkozy continued to press the European Central Bank over its policy on the euro. The French president thinks the currency's strength is hurting exports and growth and hinted that Germany was moving towards his position on the matter. But Angela Merkel, Germany's chancellor, reiterated her view that the ECB should remain focused on holding inflation down.

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KAL's cartoon

Jul 19th 2007
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Kevin Kallaugher

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Nuclear proliferation

The riddle of Iran

Jul 19th 2007
From The Economist print edition

Iran's leaders think a nuclear weapon could rejuvenate their tired revolution. How can they be stopped?

Getty Images

Get article background

“THE Iranian regime is basically a messianic apocalyptic cult.” So says Israel's once and perhaps future prime minister, Binyamin Netanyahu. If he is right the world is teetering on the edge of a terrifying crisis.

While the world has been distracted by Iraq, Afghanistan and much else, Iran has been moving relentlessly closer to the point where it could build an atomic bomb. It has converted yellowcake into uranium hexafluoride gas. Now it is spinning the gas through thousands of centrifuges it has installed at the underground enrichment plant it built secretly in Natanz, south of Tehran. A common guess is that if it can run 3,000 centrifuges at high speed for a year, it will end up with enough fuel for its first bomb.

According to the International Atomic Energy Agency, the UN's nuclear watchdog, Iran could have 3,000 centrifuges hooked up by the end of this month. The Iranians say their next aim is to scale up to 54,000 centrifuges. Figuring out how to put the fuel into a usable weapon will also take time—perhaps a year or more. But for would-be bomb-builders, making the fuel is by far the hardest part. The upshot, say Israel and some American experts, is that Iran may have a bomb by the end of 2009. Mohammed ElBaradei, the IAEA's director-general, is more cautious. But even he says that if Iran really wants a bomb it could now build one within three to eight years.

Choose your unhappy ending

What Iran is doing at Natanz is entirely illegal. It has signed the Nuclear Non-Proliferation Treaty and says its nuclear aims are peaceful. But having spent decades deceiving nuclear inspectors, it is disbelieved even by its friends. A year ago this month Russia and China therefore joined the rest of the UN Security Council in ordering Iran to stop. It carried on regardless. The Security Council followed up with two resolutions, in December 2006 and March this year, repeating its demands and applying sanctions. The centrifuges spin defiantly on.

So what next? This story could have at least three unhappy endings. In one, Iran ends up with nuclear weapons, bringing new instability and a hair-trigger face-off with nuclear Israel into one of the world's least-safe neighbourhoods. In another, America or Israel take pre-emptive military action and manage to stop it, even though such an attack would almost certainly have very dangerous consequences of its

own. In the third ending, Iran is attacked, and enraged, and retaliates—and still ends up with a bomb anyway.

It is vital to understand that this third finale is not a nightmare dreamt up by editorial writers. After the false intelligence that led America into Iraq, and the mayhem that followed, it may seem hard to believe that America or Israel are pondering an attack on a much bigger Muslim country. But they are—and they are not mad. This time, after all, there is no question of false intelligence: the world's fears are based on capabilities that Iran itself boasts about openly. Nor would there be another invasion: this would be an attack from the air, aimed at disabling or destroying Iran's nuclear sites. From a technical point of view, launching such an attack is well within America's capabilities (America has lately reinforced its carrier fleet in the Persian Gulf) and perhaps within Israel's, too.

Yet such an attack would nonetheless be a huge gamble. Even if it delayed or stopped Iran's nuclear programme, it would knock new holes in America's relations with the Muslim world. And if only for the sake of their domestic political survival, Iran's leaders would almost certainly hit back. Iran could fire hundreds of missiles at Israel, attack American forces in Iraq and Afghanistan, organise terrorist attacks in the West or choke off tanker traffic through the Strait of Hormuz, the world's oil windpipe. How could any Western leader in his right mind risk initiating such a sequence of events?

The succinct answer of Senator John McCain is that although attacking Iran would be bad, an Iran with nuclear weapons would be worse. He is not alone: most of America's presidential candidates would consider military force.

Cult or calculator?

If Iran really is no more than the “messianic cult” of Mr Netanyahu's imagination, it would be worth running almost any risk to stop it acquiring nuclear weapons. But as our special report argues, Iran is not that easy to read.

Iran is a self-proclaimed theocracy. Yet it has conducted foreign relations since the revolution of 1979 in a way that seems perfectly rational even if it is not pleasant. Its president, the Holocaust-questioning Mahmoud Ahmadinejad, is widely reported to have threatened to “wipe Israel off the map”. But in fact he may never have uttered those precise words, and there is both ambiguity and calculation behind the bluster. Look closer and Mr Ahmadinejad is vague about whether he means that Iran should destroy Israel or just that he hopes for Israel's disappearance. Knowing that a nuclear attack on Israel or America would result in its own prompt annihilation, Iran could probably be deterred, just as other nuclear powers have been. Didn't Nikita Khrushchev promise to “bury” the West?

Since Israel has memories of a real Holocaust, it may not set much store by that “probably”. This newspaper continues to believe that even for Israel containment of a nuclear Iran would be less awful than a risky pre-emptive attack that would probably cause mayhem, strengthen the regime and merely delay the day Iran gets a bomb. Yet the whole world still has a huge interest in preventing that day from coming. Even if Iran never used its bomb, mere possession of it might encourage it to adopt a more aggressive foreign policy than the one it is already pursuing in Iraq, Lebanon and the Palestinian territories. And once Iran went nuclear other countries in the region—such as Saudi Arabia, Egypt and perhaps Turkey—would probably feel compelled to follow suit, thereby entangling the Middle East in a cat's cradle of nuclear tripwires.

Is there a way to avoid all of the unhappy endings by finding a peaceful way to stop Iran going nuclear? The Europeans hoped they had stumbled on such a solution last year, when they at last talked Russia and China into imposing sanctions and George Bush into dangling the prospect of normal relations with Iran once enrichment stopped. But the mild sanctions imposed so far are not working, and now the technological clock in Natanz is outrunning the diplomatic clock at the United Nations. Iran may soon work out how to spin its centrifuges at full speed for long periods; and once it learns how to do that the odds of stopping it from building a bomb will rapidly lengthen. This suggests that a third sanctions resolution, with sharper teeth, needs to be enacted without delay.

Iran is obstinate, paranoid and ambitious. But it is also vulnerable. A young population with no memory of the revolution is desperate for jobs its leaders have failed to provide. Sanctions that cut off equipment for its decrepit oilfields or struck hard at the financial interests of the regime and its protectors in the Revolutionary Guards would have an immediate impact on its own assessment of the cost of its nuclear programme. That on its own is unlikely to change the regime's mind. If at the same time Iran was

offered a dignified ladder to climb down—above all a credible promise of an historic reconciliation with the United States—the troubled leadership of a tired revolution might just grab it. But time is short.

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Aerospace

The meaning of EADS

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In the end, it was a fight between globalisation and nationalism—and globalisation won

Reuters

Get article background

A MEETING at the Airbus head office between Angela Merkel and Nicolas Sarkozy on July 16th was due to bring the drama of EADS to a climax. But the expected face-off in the battle for control of European Aeronautic Defence and Space, the parent company of Airbus and Eurocopter, never happened. For even before the German chancellor and the French president sat down together, the company announced that the dispute had been satisfactorily resolved.

In some ways the story of EADS has been a one-off. No firm has ever been so bitterly fought over by two governments. No company has ever been saddled with such a daft management structure in consequence. No corporate saga has ever demonstrated quite so conclusively that politics and business don't mix. But the tale illustrates a general point too: that even the maddest manifestations of economic nationalism give way in the end to the pressure of globalisation.

Peace, piece by piece

EADS, the standard-bearer of the European aerospace and defence industry, was born out of a common European desire to create a competitor to America's Boeing. The rivalry between the governments that created the company was reflected in its management structure. EADS had two chairmen and two chief executives—one German and one Frenchman for each job—and no way of getting decisions made.

That is over. EADS will now have a German chairman (Rüdiger Grube, one of the co-chairmen) and a French chief executive (Louis Gallois, one of the co-CEOs). Tom Enders (a German and the other EADS co-CEO) will become sole boss of Airbus; and its COO will be a Frenchman, Fabrice Brégier, who turned Eurocopter into the world's leading commercial helicopter company. So a Frenchman will run the show under the eye of a German chairman, while another German takes the reins at the most important part of the group. The two core shareholders—the French government with the Lagardère group, and DaimlerChrysler—will each lose two of their four board members, to be replaced by four independent directors.

Everyone involved (not least the taxpayers who still have to lend EADS money to develop new aircraft) should benefit from these changes. For this, Mr Sarkozy and Mrs Merkel deserve credit. Yet it would be wrong to interpret this deal as signalling new thinking on industrial policy. Mrs Merkel may take a more enlightened line than her predecessors, but there is little in Mr Sarkozy's recent past to suggest that he

has seen the light on economic liberalism.

What has changed is not the politicians, but the aerospace business. In ten years Boeing has gone from an introspective protégé of America's Department of Defence to a global civil aviation giant. It has outsourced production to contractors in America and found international firms, notably in Japan and Italy, to join in as risk-sharing partners, making much of its successful new 787. Boeing has taken the lead in developing new technology to make big aircraft more efficient, more economical and more eco-friendly.

Airbus, meanwhile, has fallen on hard times with delays to its flagship A380 and to the launch of its rival to the new best-selling Boeing long-haul jet. Work shared between France and Germany led to a lack of co-ordination and delays on the A380 that have cost billions. And the rise of the euro against the dollar has made much of its production uncompetitive. Most of Airbus's costs are in euros, but aircraft are priced in dollars.

Airbus needs to trim production in Europe by selling factories to suppliers or bringing them in as risk-sharing partners. It should also outsource more work to Asia and other low-cost centres. The company's old management structure prevented it from doing so because it embodied a nationalistic rivalry that encouraged German and French managers to demand that parts should be sourced from their homelands. This week's announcement showed that Mr Sarkozy and Mrs Merkel have bowed to the inevitable and given Airbus a chance to move in the same direction as Boeing has.

Aerospace is one of the last redoubts of economic nationalism. In many other industries European governments have already given way to pressure from globalisation. Resistance to cross-border mergers within Europe is crumbling. The Spanish government saw off a German takeover of Endesa, a utility, but eventually gave in to a joint takeover bid led by Italians. Emerging-market firms are making inroads into European corporate life. The French government was forced to accept the takeover of Arcelor, a European-owned steel company, by Mittal, a firm founded by an Indian. The resolution of the long and bitter battle for Airbus proves the same point: that governments that try to resist the pressure of globalisation may win time, but they will ultimately lose the fight.

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Monetary policy

From helicopter to hawk

Jul 19th 2007
From The Economist print edition

America's economy looks weak, but the Fed's chief has been right to emphasise the risk of inflation

Reuters

GETTING rid of a bad name is difficult; but a consistent message can do it, as Ben Bernanke has proved. Once caricatured as “Helicopter Ben” for suggesting that cash scattered from the sky would cure deflation, the Federal Reserve's chairman is now widely accepted as a champion of low inflation. The main thrust of the annual testimony that he gave to Congress on July 18th is familiar from recent Fed statements: moderate growth is likely to continue, but capacity pressures mean inflation is still the central bank's main concern.

Mr Bernanke, a distinguished scholar of the Great Depression of the 1930s, has shown that he is equally versed in the lessons from the Great Inflation of the 1970s. In a speech to academic economists earlier this month, he said the idea that inflationary policies could permanently increase employment has been “entirely discredited”. On Capitol Hill this week, he was more circumspect, and sought to dispel the notion that policymakers have too little concern for growth with some warm words on the Fed's “dual mandate”. But his main message was that the Fed will not move to support the economy until it is sure inflation is tamed.

A different kind of maestro

This resolute focus on inflation has been brave and well judged. The decision to stop raising interest rates at 5.25% last summer has proved a good one: inflation has been gradually squeezed out, without threatening recession. The Fed's consistent bias to further tightening since then has sent the right signals too. To markets, it says risk-takers will not be bailed out by cheaper money when the going gets tough. To the public, it shows that the Fed is serious about capping inflation.

In truth, America's economy is enduring quite a bumpy landing. The labour market is probably weaker than it looks (see article). Economic growth has been slower than many, including the Fed, had forecast a year ago. The slump in housebuilding has proved deeper and more protracted than expected and there are worries that it could spill over into other areas of the economy, like consumer spending. Fed officials now expect the American economy to expand by 2¼-2½% this year; last July, they hoped for growth a little above 3%.

Despite this disappointment, the temptation to prop up growth has rightly been resisted. The biggest concern for a debt-laden economy like America's is that people expect inflation to stay high and interest

rates to soar in response, crushing highly leveraged firms and consumers alike. Attempts to fine-tune the economy could easily cause bigger problems for economic growth later on.

Mr Bernanke's message that he won't risk inflation for the sake of short-term growth is now understood by bond markets. After some crossed signals early last year—not helped by the perception that, as a former Princeton professor, Mr Bernanke was unworldly and lacked Wall Street smarts—financial markets are learning to read him better. Fed statements are more concerned with what policymakers might respond to than with explicit signals about the next move in interest rates.

Indeed, after nearly 18 months as Fed chief, Mr Bernanke now cuts a more reassuring figure: determined but unflashy. He has dealt reasonably well with the housing-market slump. It was not easy to judge when to stop tightening after the American economy had got used to a long period of ultra-low interest rates, but so far he has got things about right.

In short, Mr Bernanke has risen to the challenges he has faced. On the other hand, thankfully, he has yet to confront a serious crisis. If the economy stumbles again before inflation is put back in its box, he will face a much tougher test.

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Turkey's election

Of mullahs and majors

Jul 19th 2007
From The Economist print edition

The best outcome would be the re-election of Recep Tayyip Erdogan

Reuters

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THE general election in Turkey on July 22nd is momentous not just for the country and region but for the cause of democracy in the Muslim world. It was called early by Recep Tayyip Erdogan, the prime minister and leader of the ruling Justice and Development (AK) Party, after he failed to lever his foreign minister, Abdullah Gul, into the presidency. Mr Gul was fiercely opposed by secularists and the army, because his wife wears the Muslim headscarf, banned in public buildings. The opposition harps on AK's Islamist roots and portrays the election as a fight between secularism and political Islam. In reality, it is over the future of Turkish democracy.

This is a fight that Mr Erdogan's AK Party is likely to win—as it deserves to. The government that came in after AK's big election victory in November 2002 has been a success. For decades Turks had endured a string of fractious and corrupt coalitions, interspersed by military coups. The economy lurched between boom and bust, culminating in near-bankruptcy in 2001. In stark contrast, Mr Erdogan's government has been stable and relatively clean. By sticking to the rescue plan devised by Kemal Dervis, the finance minister in 2001, it has tamed inflation, seen economic growth of around 7% a year and lured in record foreign investment (see article).

Mr Erdogan's government has also modernised the constitution. It has shaken up the judiciary, updated the penal code and nudged the army towards civilian control for the first time. The AK has taken tentative steps to improve the treatment of minorities, especially Turkey's 14m Kurds, although fighting against guerrillas of the Kurdistan Workers Party (PKK) has flared up anew. Mr Erdogan has even gained the moral high ground over Cyprus, by persuading previously obdurate Turkish-Cypriots in 2004 to endorse a UN unification plan that was rejected by Greek-Cypriots.

These successes were crowned by the achievement of a goal vainly pursued by Turkish governments for over 40 years: the start in October 2005 of negotiations for membership of the European Union. Admittedly, the negotiations have run into roadblocks on both sides, the latest being the firm opposition of France's new president, Nicolas Sarkozy. But talks about EU membership are, at least formally, still continuing.

None of this is to dismiss all the concerns of the secular opposition. When it comes to fundamentalism, Mr Erdogan has form: he was briefly jailed in 1998 for reading an Islamist poem in public and he once described democracy as a train from which to disembark on reaching one's destination. Some in his party still take that view. That could make an AK landslide troubling, but it is an argument for vigilance, not disqualification. Most of the people in the AK have evolved to become more like European-style Christian

Democrats. They are no longer a huge threat to secularism. The real risk now is that the opposition's slogan that democracy is meaningless without secularism could become an excuse for military intervention.

In this situation, it would be wise for a re-elected Mr Erdogan to reach out to his opponents, above all over the presidency. The urbane Mr Gul might be a good president. But in today's bitterly partisan atmosphere, there is a case for fixing on a more neutral figure for a post that is meant to be above politics: somebody acceptable not only to the AK Party but also to the army and opposition. Encouragingly, Mr Erdogan is dropping hints that he will move in this direction.

Disarming the Kurds and the Europeans

After the election Turkey faces two big foreign problems. The first is what to do about PKK fighters in northern Iraq. Turkey has troops in the area now. But a big invasion would be disastrous, importing instability into northern Iraq and south-eastern Turkey alike. As it happens, the opposition (and the generals) are keener to invade than Mr Erdogan. His best bet is to persuade the Americans and political leaders of northern Iraq to disarm PKK terrorists themselves, and to keep talking to moderate Kurds who are likely to get into parliament.

The second problem is how to keep the door to the EU ajar. Another gesture towards accepting the legitimacy of the Cypriot government would help. But the best policy is one of patience. Turkey should quietly continue to make the reforms needed for full membership. And EU countries should be held to the commitment they all made in October 2005, no matter how long and tortuous the process proves. It is quite possible that, in the end, Turkey may choose not to join. But it would be far better if that decision were made by Turks, not by Europeans slamming the door in their faces.

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The Democrats

The cross of gold

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The Democratic candidates have veered to the left

AT LEAST no one will be able to say that they were not given a clear choice. It is 15 months to election day, and the identity of the nominee on each side remains shrouded in uncertainty. But it is already pretty clear that whoever the two candidates are, the Democrat will run well to the left of the Republican. The 2008 presidential election is shaping up to be a battle over nothing less than America's attitude to globalisation.

That is not to say that questions about inequality and trade seem to the fore at the moment. Instead the debate is dominated by the even starker divide between the parties over Iraq. Every single Democratic contender favours a rapid withdrawal from the country, whereas every Republican contender (bar Ron Paul, a Texan with negligible support in the polls) favours some version of staying the course. But this particular cleavage may already have passed its deepest point.

Many Republican congressmen, especially those facing tough re-election races next year, have already deserted George Bush, and a lot will follow if there is no change of course. Iraq could well fade as an issue between now and November 4th 2008 if, as seems increasingly likely, the administration uses the pretext of a formal review of Iraq policy due in mid-September to sketch out a plan for at least the beginning of a phased withdrawal. That is when the Democrats' populism may become more evident.

An element of calculated populism is always to be expected from the Democrats, especially in primaries, but this year's candidates are beating the drum loud and early. The subjects covered range from tax breaks for the wealthy to the evils of mortgage lenders. But two populist causes are to the fore—one dangerous, the other promising.

Those were the days

The dangerous one is trade. The Democrats who, in the 1990s, gave America the Uruguay round, the North American Free-Trade Agreement (NAFTA) and permanent most-favoured-nation trading status for China have changed. Alas, none of the leading candidates, and precious few Democrats of any stripe, would now call themselves free-traders.

Even Hillary Clinton, the most centrist of the leading Democratic contenders, whose husband signed all three of those big trade deals, has found it politic to project herself as a trade sceptic. She opposes a free-trade deal with South Korea, America's seventh-biggest trading partner, and voted against the Central American Free-Trade Agreement. She has said that America needs a “little time out” before making any further trade deals. The two leading candidates to her left have gone further. John Edwards and Barack Obama have both denounced NAFTA and called for its renegotiation. None of the three supported moves to extend the president's “fast-track” trade negotiation authority, which expired last month.

The Economist, naturally, does not take this view. It would be naive not to recognise that many middle-class Americans feel that the huge burst of globalisation since the 1990s has not benefited them much: real average wages have been flat and perceived job insecurity has increased. But globalisation is a scapegoat; many economists argue that rising inequality has far more to do with technology (which Mrs Clinton, strangely enough, is not condemning) than with trade. And what happens to American jobs when

foreigners start retaliating with trade barriers of their own?

If protectionism is the rotten part of the Democrats' populism, there is a more promising side. Nobody denies that the insecurity in America has been sharpened by the absence of a comprehensive health-care system. Most Americans still get their health care from their companies: lose your job, and you lose your insurance cover with it. All the main Democrats, but none of the leading Republicans, have promised to provide universal, affordable health care. Interestingly, even the most radical of the Democrats' health plans, that of Mr Edwards (see article), is hardly extremist stuff, relying on the private sector but tweaking the system to make sure that no one falls through the cracks and that costs are controlled.

The Democrats' two obsessions are linked: a better health system (combined with more focused help for people who lose their jobs) would surely blunt much of the impulse to protectionism. The danger is that voters are so fed up with the Republicans (and indeed government in general) that they will not question the Democrats' populism carefully. Figures from the Pew Research Centre show that only one-third of Americans believe that elected officials care what they think.

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Russia and the Litvinenko case

Learning from the cold war

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Britain and the West need to resist Russian excesses, but also to do business with the regime

Corbis

THE murder of Alexander Litvinenko in London last year, and the diplomatic furore that it reignited this week, have laid bare some harsh truths about Vladimir Putin's Russia. The ultimate author of the crime is unknown, and may always be; but all the possible culprits—Mr Putin, the security services, and so on—are alarming, albeit in different degrees. State-sponsored lawlessness inside Russia, it is now clear, is a concern for the rest of the world too, a worry intensified by the reckless murder method: poisoning by radioactive polonium. As the British government argued this week, when it announced the expulsion of four Russian diplomats, the Kremlin's failure to co-operate with the British investigation implies a sad disregard for its international obligations. The Kremlin retaliated by expelling four diplomats, suspending visas for officials and threatening to withdraw co-operation over terrorism.

Ultimately, what the case has illuminated is the ultra-cynical, hostile world-view that informs Russia's truculence: a view in which there are precious few values or rules, only competing interests. Mr Putin's Russia, it seems, is a more chaotic and frightening place than the resurgent, authoritarian but orderly country that it is often thought to be. Unfortunately, it is a frightening place with huge power.

Dysfunctional, gangsterish—but a world player again

Quite apart from its vast territory and nuclear arsenal, Russia has the world's largest hydrocarbon reserves—now its chief foreign-policy lever—plus a permanent seat on the United Nations Security Council. All that makes Russian co-operation vital to the West's efforts over global problems such as climate change, North Korea and, most pressingly, the future status of Kosovo and restraining Iran's nuclear ambitions.

The knowledge that he can thwart Western designs, allied to the self-confidence engendered by Russia's economic revival and his strangulation of domestic opposition, has allowed Mr Putin to indulge his sense of grievance at Russia's diminished status. When the Kremlin intimidates foreign diplomats, meddles in its neighbours' affairs or threatens to withdraw, as Mr Putin has done (see article) from arms-control agreements, it is committing a sort of blackmail with menaces: put up with this, is the implication, or worse will follow. The West has mostly tolerated these antics—until this week.

The British government has evidently decided that Russian insouciance over what was, in effect, a miniature act of nuclear terrorism on the streets of London, was a provocation too far. The expulsions mark an end to the general coddling of Mr Putin and to the priority that has historically been given to commercial interests in British policy towards Russia. The resolve would have been more effective had it been applied earlier in Mr Putin's presidency; it would make a bigger impression if it were more firmly

and quickly backed up by Britain's European partners. But it is welcome all the same.

Despite the echoes of Soviet-era spats, this stand-off does not, as some excitable commentators are persuaded, herald the onset of a new cold war. Even if it is in some respects more worryingly unpredictable than the Soviet Union, today's Russia does not have the old empire's economic or military might, nor its rival ideology. But the cold-war analogy is instructive in one way. Even as they prepared to destroy one another, the West and the Soviet Union struck deals and traded in energy. In diluted form, the same combination of opprobrium and realpolitik is needed in relations with Russia now. For example, despite the instinct in the Kremlin that all diplomacy is zero-sum, it might be possible to encourage the Russians to help more with Iran by pointing out that if Iran had no bomb programme, America might not need to press forward with a controversial missile-defence system in eastern Europe.

The idea that Russia might quickly become a “normal” country, like the hope that Mr Putin might turn out to be a democrat, has been discredited. But Russia is still a country the West must do business with, even as its excesses are resisted.

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On American power, India, Germany, Niels Bohr, pharmaceuticals, flying turkeys, health warnings

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The powers that be

SIR – Your briefing on American power assumes that military power is the sole hegemonic factor in the world ("The hobbled hegemon", June 30th). The history of the past 50 years suggests otherwise. Indeed, military power, if used to exercise hegemony, is often counter-productive. Though dominant in their spheres, the French and American military powers lost in Vietnam, as did the Soviets in Afghanistan and the British at Suez. The American victory in the 1991 Gulf war and Britain's win in the Falklands were defeats for Iraq and Argentina, both of which were trying to bolster their regional power through aggression. Similarly, the Soviet "victories" in Czechoslovakia and Hungary eventually unravelled. And despite their military prowess, America and Britain are hardly succeeding in Iraq.

Kalyan Singhal
Professor of business at the University of Baltimore
Columbia, Maryland

SIR – With apologies to Australia and Tony Blair, the support and advice that is given to America by other Western, notably European, countries can be summarised into three points ("Still No.1", June 30th).

(1) Whatever you are doing—stop! Or if you won't stop, perhaps we can join you and pretend that we are "helping", within, of course, the constraints of our own public opinion and domestic chaos, our meagre military budgets and our economic crises.

(2) Whatever you are planning, please wait a few years and let us engage the subject and negotiate a more "favourable" ending. But please stand ready, for when this appeasement collapses you will be called on to fight and clean up our mess.

(3) Whatever you are thinking, it must be wrong for sure. Just look at the relative positions we retain in the world. You—universally despised and under attack from all corners of the globe. We—the elite and venerable sages of Western thinking, enjoying peaceful domestic scenes, robust job growth and international respect from our government-controlled media.

Robert Kunkle
Dallas

SIR – You fail to recognise the change in the American psyche. After its efforts to rebuild Europe and offer protection from communism, America is now sick of the world. The current preference is to build a Fortress America and let others sort themselves out. We are ready to return to the isolationism of the 1930s and one can only hope that other countries make a better job of it than they did back then.

Scott Plouse
Medford, Oregon

SIR – I struggled to fathom the point of your panegyric to America. Surely anyone who has only so much as skimmed any given edition of your publication knows exactly where you stand on the world: America is destined forever to lead it, with Britain attached closely thereto. Or were your articles intended as a subliminal message to Gordon Brown, lest he be considering another path?

Sher Ali Khan

Mardan, Pakistan

Educational priorities

SIR – So, Krishnan Ganesh, one of the proud products of India's higher-education system, is busy developing tools to help improve the quality of primary education in America by outsourcing teaching over the internet (Face value, June 23rd). Meanwhile, precious little is done to remedy the neglect of primary education in Mr Ganesh's home country. The commitment of India's elite towards primary education, especially in rural areas, is bordering on scandalous neglect; funding goes towards supporting tertiary education at the expense of millions of poor children.

Murali Reddy
Lake Hiawatha, New Jersey

Job titles

SIR – I agree that "spelling errors undermine" Paddy Ashdown's "authoritative tone" on peacekeeping ("Paddy's passions", June 30th). But as "tiresome" as these petty mistakes are, you repeated Lord Ashdown's more remarkable howler of elevating Kurt Kiesinger to the largely ceremonial office of president of Germany. The ex-Nazi was in fact chancellor of the Federal Republic of Germany, the most powerful office in post-war Germany between 1966 and 1969.

Marc Florian Essen
Hamburg

Quote, unquote

SIR – Although Niels Bohr is often credited with being the original source of the comment that "it is very difficult to make predictions, particularly about the future", this is not entirely correct (Letters, June 30th). It is said Bohr used the saying to illustrate the difference between Danish and Swedish humour, and he usually attributed the remark to Robert Storm Petersen, better known as Storm P., a Danish artist and writer. However, the phrase did not originate with Storm P. either. It has not been possible to trace the original author, though Mark Twain is often mentioned.

Felicity Pors
Niels Bohr Archive
Copenhagen

Drug tests

SIR – Your leader on the reform of pharmaceutical regulations in America maintains that safety concerns must be addressed, but why assume that the government will do a better job than independent players ("From bench to bedside", June 30th)? In the United States private agencies ensure quality assessment (including off-label use and risks missed by the government) in a speedier way than the Food and Drug Administration.

As Peter Pitts, a former associate commissioner at the FDA, has shown, there is no direct link between additional clinical trials and safer medicines. The length of the FDA approval process has doubled since the 1960s as have the financial costs since the late 1980s. Moreover, the number of clinical trials doubled between 1977 and 1995 and the number of patients tripled. Yet in the past 40 years the share of medicines withdrawn from the market has remained constant.

Jacob Arfwedson
Centre for the New Europe
Brussels

Species recognition

SIR – The turkey that Benjamin Franklin thought would make a better national symbol than the bald eagle was not "fat and flightless" ("Downgrading an icon", July 7th). Although it is not a long-distance flier, the wild turkey can fly well, is not particularly fat, and is very different from the domestic turkey that you are apparently familiar with.

Jim Scheld
Waldorf, Maryland

Barflys

SIR – One example of a subtle message being more effective than a loud government health warning is found in New York ("None so deaf as those that will not hear", June 23rd). Bars across the city display a plaque with the standard boilerplate that "Alcohol during pregnancy causes birth defects." In one establishment the message has been rendered brutally effective by a patron who has scrawled underneath, "Just look around."

Brigg Reilley
Albuquerque

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Turkey's election

A battle for the future

Jul 19th 2007 | ANKARA, DIYARBAKIR AND ISTANBUL
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The importance of this weekend's election goes well beyond Turkey itself

AP

Get article background

ON JULY 22nd Turkey, still an adolescent democracy, goes to the polls. The event is being followed carefully far from its own borders. For one thing, the country is of huge strategic importance. It borders the European Union to the west and the Caucasus, Iran, Iraq and Syria to the east and south. Iraq is especially crucial, as Turkey's army is threatening to invade its northern region to root out Kurdish terrorists there. Outsiders are also monitoring Turkey as one of the Muslim world's rare examples of a working democracy.

The election contest has been joyless if feverish, marked by huge rallies and demonstrations that suggest there will be a big voter turnout. Only this week an independent candidate was shot dead as he was being driven away from a TV studio in Istanbul. But underlying the tensions is a battle over which way Turkey's democracy will go.

The first fusillade in this battle was fired on April 27th when the army, claiming to detect a dangerous slide towards Islamic radicalism, threatened to intervene against the government. In a late-night statement posted on the general staff's website, it spoke ominously of risks to Ataturk's secular republic. In a country with a history of military coups, the so-called “e-coup” promptly sparked a political crisis that led to the early election. Since then, it has cast a pall over the entire campaign.

The proximate trigger for the army's threat was the decision by Recep Tayyip Erdogan, the prime minister and leader of the ruling Justice and Development (AK) Party, to nominate his foreign minister, Abdullah Gul, to replace President Ahmet Necdet Sezer, a former judge who was due to step down on May 16th. Like Mr Erdogan, Mr Gul once dabbled in political Islam. More to the point, both men's wives wear the Muslim headscarf, which in accordance with Ataturk's secular tradition is banned in all public buildings.

The army, always suspicious of the AK Party because of its Islamist roots, deemed the prospect of such a president a threat to the secular republic. Despite the government's big parliamentary majority, Deniz Baykal, the leader of the opposition Republican People's Party (CHP), managed to stop Mr Gul's election by dubiously claiming in the constitutional court that parliament lacked a quorum of 367 deputies in its first round of balloting. Egged on by the generals, the court came down on Mr Baykal's side. Meanwhile,

millions of secular Turks took to the streets to protest against the government. Many were urban middle-class women, plainly fearing that their carefree lifestyles were at stake.

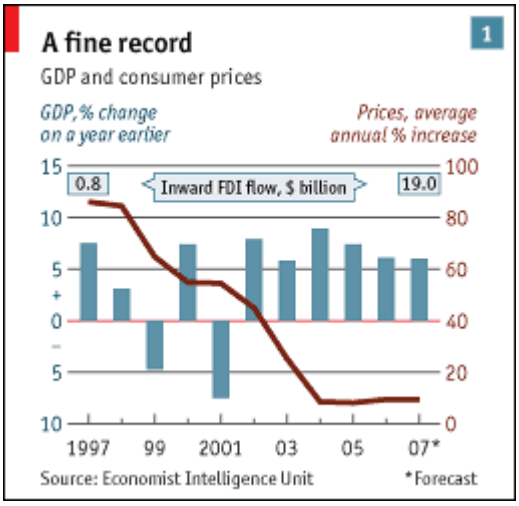
The combined pressure proved too strong: Mr Erdogan withdrew Mr Gul's candidacy and called a general election before the scheduled date of November 4th. But in a burst of defiance, he also rammed through a constitutional change to let the people elect the next president themselves. Mr Sezer, who has continued in office as a caretaker, vetoed this. Mr Baykal, who has built a career on trashing rivals without producing ideas of his own, lodged a fresh complaint with the constitutional court. Unexpectedly, however—or perhaps because it wished to salvage its reputation—the court this time backed the government.

The new parliament must now decide whether to go for a direct election of the president or to stick with the present rules. Under these, if parliament fails to agree on a president within 45 days, it will have to dissolve itself and call yet another election. Thanks to Mr Baykal, a quorum is now needed, a complication that may allow opposition parties to paralyse the whole process. Mr Gul has hinted that he will re-present himself as a presidential candidate, but Mr Erdogan has also talked of putting together a possible list of nominees in consultation with the opposition.

Checking the record

To most Turkish voters, however, the election is about much more than the presidency and secularism. It is, in effect, a referendum on the AK Party's record in office, which is strikingly good (see chart 1). Never previously in power at national level, Mr Erdogan and his fellow Islamists have done more to transform and modernise Turkey than any of their secular predecessors except Ataturk and perhaps Turgut Ozal, a visionary prime minister in the 1980s. From the hardscrabble Kurdish provinces to the shiny new suburbs of Istanbul, the effects of AK's “silent revolution” are evident everywhere.

In the Kurds' unofficial capital, Diyarbakir, Kurdish women were recently ululating appreciatively as Mehdi Eker, the farm minister, reeled off the government's achievements and goals: average annual growth of 7.3% (nearly four times the EU figure), a record $20 billion in foreign direct investment, $40 billion in tourism earnings by 2013. “We gave your children free textbooks, brought the internet to their schools, and water to all your villages,” said Mr Eker. He was speaking the most common Kurdish dialect, Kurmanji. Until the AK Party passed a raft of constitutional and judicial changes, he might have been jailed on separatism charges for doing so.



It was largely thanks to these constitutional changes, as well as to an improving economy, that the EU agreed to open membership talks with Turkey in 2005, a goal that most previous Turkish governments aspired to but none came close to achieving. Many European and American diplomats agree that Mr Erdogan is the man most fit to lead Turkey. Their views are plainly shared by millions of Turkish voters, who recall the protracted squabbles, economic mismanagement and massive corruption of the string of secular coalitions that crippled Turkey before AK.

Indeed, opinion polls suggest that the voters may give AK quite a bit more than the 34% that catapulted it to single-party rule in the November 2002 election (when only one other party, the CHP, got above the 10% threshold for parliamentary representation). The polls suggest that at least one other party, the Nationalist Action Party (MHP), will enter parliament this time, along with some 30 candidates from the Kurdish Democratic Turkey Party (DTP), who are running as independents to get round the 10% threshold.

Thus, even if AK gets a bigger share of the vote than in 2002, it will probably have a smaller majority and it might even be unable to rule alone. On the other hand, if it were to win a sufficiently big majority (two-thirds of the 550 parliamentary seats) to change the constitution and force through its own choice of president, the army might well step in. “This [election] is a stick with shit at both ends,” says one AK bigwig. “The choice is between a weak government or a military coup.”

That may be an exaggeration. Yet, looking back, some AK officials concede that they could have handled

the row over the presidency better. As commander-in-chief of the armed forces, the president has considerable power. He can approve the expulsion of overtly pious officers, and he appoints judges and university rectors. He can also veto legislation deemed to violate the secular constitution. To the generals, as to the millions of secular demonstrators, no AK man can be trusted in this role. They argue that Mr Erdogan (who originally wanted the job for himself) should have reached out to the opposition and agreed on a candidate outside his own party.

Secular suspicions of the AK government had already been fanned, not least by the controversial education minister, Huseyin Celik. Mr Celik, who is said to have close links to the powerful Islamic Nur fraternity, has been accused of injecting Islam by stealth. He has overseen a revision of textbooks to promote creationism and the recruitment, as teachers, of hundreds of graduates of *imam hatip*, Islamic clerical-training schools. There has also been “an explosion in enrolment at Koran lessons, especially among girls,” says Alattin Dincer, president of Turkey's largest teachers' union. No wonder Mr Celik had to explain himself in a meeting with the chief of the general staff, Yasar Buyukanit, shortly after the army's e-coup.

Attempts by a few AK mayors to create booze-free zones, as well as Mr Erdogan's own failed effort in 2005 to outlaw adultery, have not helped the party's image with secularists. Yet none of this amounts to a tilt towards *sharia* law. Indeed, even the AK's fiercest critics are hard-pressed to point to a single act that violates secularism. If anything, most pundits reckon that the army's salvoes may have boosted Mr Erdogan's support. Banking on continued stability under a second term of AK government, foreign investors have been propelling the Istanbul stock exchange to record highs.

In truth, many AK reforms have upset the party's own conservative constituents—especially the scrapping of a law that put husbands in charge of their households. Plenty are disgruntled by the government's failure to loosen restrictions on the headscarf. All 62 female candidates fielded by AK are bareheaded. “We can't put our democracy at risk just for the headscarf, so we've frozen the issue for now,” explains Ayse Bohurler, an Erdogan party chief who sports a tightly wound scarf.

What is more, Mr Erdogan has dropped some 150 deputies, many of them Islamist firebrands who in March 2003 voted against letting American troops invade Iraq through Turkey. He has replaced them with an array of new faces, among them a high-flying Kurdish investment banker, a writer from the liberal Muslim Alevi faith and a famous cartoonist's wife. Ever the pragmatist, “Erdogan drew the right lesson from those [pro-secular] rallies,” asserts a senior Bush administration official.

Unimpressed in Istanbul

Behind the walled privacy of Istanbul's oldest social club, the scions of Turkey's moneyed class are unimpressed. They cling to the spectre of a battle between Islamic radicals and Ataturk's disciples. “This election is about the survival of the republic. I will vote for Ataturk's party [the CHP],” squawks a septuagenarian socialite. Like fellow members of the Cercle d'Orient, her aversion to the Islamists is profoundly snobbish. The real worry is the shift of wealth from an old industrial elite towards a new bourgeoisie made up of pious Anatolian entrepreneurs, who have thrived since AK came to power.

AFP

Another bouquet for Erdogan?

The generals have different concerns. Among the reforms that earned Turkey its prized date to open membership talks with the EU were provisions to trim the influence of the army. The National Security Council, where the generals used to bark orders to the politicians, has been reduced to an advisory role. Civilians can no longer be tried in military courts. The generals' powers would be shorn further if Turkey ever joined the EU.

Yet that prospect seems to be receding. The election of Nicolas Sarkozy as France's president is a blow, because he is strongly against Turkey's EU membership. The French recently blocked the opening of a chapter in Turkey's negotiations with the EU on the ground that it was relevant only to full membership, not some form of looser association. French doubts are widely shared in Europe: only Britain and Sweden are now forthright in pressing the case for admitting Turkey. The impasse in Cyprus, to which Turkey refuses to extend its customs union with the EU so long as Turkish northern Cyprus is ostracised by the rest of the world, has become an excuse for all who want to slow down or stop Turkey's membership talks.

Not surprisingly, popular support in Turkey for the EU has fallen back from the highs of two years ago. Yet although the EU is one of Turkey's two big foreign-policy problems, it has hardly been mentioned during the election campaign. “The EU doesn't sell in Anatolia,” comments Murat Mercan, an AK deputy.

The EU's focus on issues such as free speech and minority rights has also helped to feed a dangerous nationalism. This was most chillingly demonstrated in January when a Turkish-Armenian newspaper editor, Hrant Dink, was shot dead by a 17-year-old because he had “insulted the Turks”. Three months later a group of youths in the eastern city of Malatya slit the throats of three Protestant missionaries after torturing them. This week the Istanbul-based Armenian patriarch, Mesrob Mutafyan II, said he had received threats to blow up his headquarters.

“Testosterone-driven nationalism is the biggest problem in Turkey,” says one foreign banker in Istanbul. Ali Babacan, the economy minister, agrees. “Our biggest failure has been to create jobs for around 700,000 Turks who enter the labour market every year,” he adds. Mr Babacan is also Turkey's top EU negotiator, and he still aims to be ready for membership by 2013. “Sarkozy will change,” he says. “The EU cannot violate its obligations.”

The Iraq conundrum

Renewed nationalism is also affecting Turkey's other big foreign-policy issue: northern Iraq. Sitting in his offices in Washington, DC, Qubad Talabani, the youthful representative of the Kurds' quasi-independent state in northern Iraq, says that he and his kin are “bracing for a storm”. Mr Talabani, who happens to be the son of the Iraqi president, Jalal Talabani, is talking about what may follow Turkey's election. For the new political landscape is likely to determine whether the army makes good on its repeated threats to attack separatist guerrillas of the Kurdistan Workers' Party (PKK) who are based in northern Iraq.

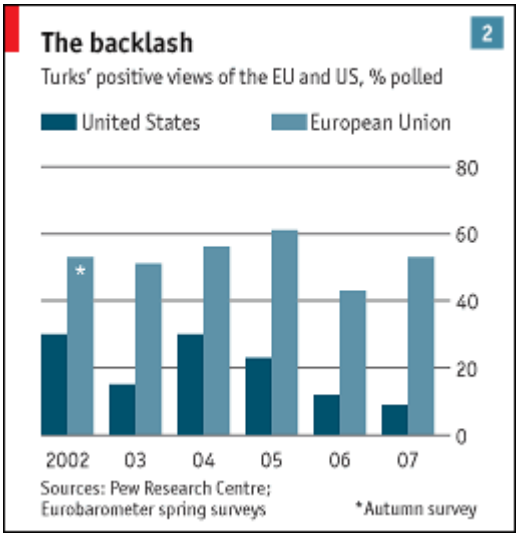
An invasion by NATO's second-biggest army would not only destabilise the only fairly calm bit of Iraq. It would also wreck Turkey's relations with America and the EU. Worse, it might not succeed: the Turks, too, could easily end up bogged down and unable to defeat an insurgency.

An upsurge in PKK attacks has killed over 200 Turkish soldiers since the start of the year. Each new Turkish casualty is bringing votes to the MHP, which is led by an enigmatic former economics professor, Devlet Bahceli. Even his most avid supporters were unnerved when Mr Bahceli flung a hangman's noose at his audience during a rally in the eastern city of Erzurum. The MHP leader has vowed, if he becomes prime minister, to reintroduce the death penalty and execute the imprisoned PKK leader, Abdullah Ocalan.

Like the generals, Mr Bahceli is also keen to clobber some 3,500 PKK militants who are sheltering in northern Iraq. America's failure to do the job is the biggest cause of rampant anti-American feelings in Turkey. Support for America is now down to 9%, lower even than in the occupied Palestinian territories, according to a Pew Global Attitudes Survey (see chart 2).

Many Turks reckon that America is reluctant to attack the PKK because it secretly wants to establish an independent Kurdish

state in northern Iraq, which would encompass the oil-rich province of Kirkuk and, possibly, chunks of south-eastern Turkey. Mr Gul has complained that PKK fighters are carrying American-made weapons. America has denied responsibility. Meanwhile, Turkish troops continue to mass along the Iraqi border. Iraqi Kurdish leaders say their fledgling entity, not the PKK, is Turkey's real target.



Turkish sensitivities are perhaps best explained by their imperial past. Between 1878 and 1918 the Ottoman empire lost 85% of its territory and 75% of its population. “The fear of obliteration was a constant presence throughout the empire's long demise,” notes an Ottoman historian, Taner Akcam. The belief that Western powers are bent on dismembering Turkey remains strong. Gunduz Aktan, a former ambassador who is running on the MHP ticket in Istanbul, argues that Turkey's very survival as a nation-state hinges on preventing a Kurdish one emerging. “If the Americans don't stop this, we will have to go in [to northern Iraq] ourselves,” he says.

Mr Erdogan, who has resisted the army's calls for a cross-border incursion, has a different view. Over the past two years he has been quietly testing the ground for what Henri Barkey, a Turkey follower at America's Lehigh University, calls a “grand bargain”. Turkey would recognise the Iraqi Kurds' semi-independent status; the Iraqi Kurds would coax PKK fighters to give up their guns and pledge to respect Turkey's borders. Relieved of the pressure of having to choose between its Turkish and Iraqi Kurdish allies, America would be delighted, as would Turkey's own Kurds.

But the generals refuse to play along. They still hope that, after the election, they will get the nod to stomp into northern Iraq. It is not only the future of Turkish democracy that is at stake this weekend; it may be the future of the whole region.

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The candidates: John Edwards

Man of the left

Jul 19th 2007 | TAMA AND MARSHALLTOWN, IOWA
From The Economist print edition

AP

John Edwards trails in third place. But his policy ideas are shaping the Democratic presidential race

HE STRIDES into an Iowa primary school where more than a hundred people have skipped their lunch to hear him, wearing jeans and flashing a smile that could sell toothpaste. He begins, as always, by mentioning his wife, who was diagnosed with incurable cancer in March. “She's doing great.” But within seconds, John Edwards dives into the details of his health-care scheme. Then on to questions. The subjects range from high medical costs to the influence of Iran. “Here's what I think,” he answers, before launching into a detailed plan to fix the problem.

Mr Edwards is a man of big plans. No other presidential candidate, of either party, can match the sheer quantity, let alone the ambition, of his policy ideas. He has grand, progressive, goals—to end the war in Iraq (obviously), provide universal health care, address global warming, eliminate poverty in America within 30 years—and detailed blueprints of how to do it all.

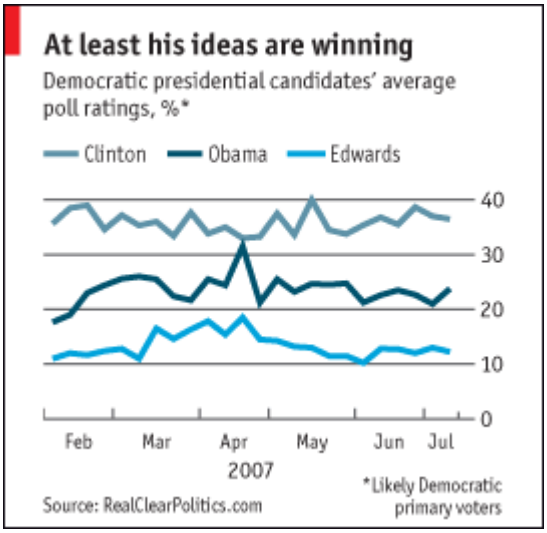
All this is a big change from 2004, when he first ran, unsuccessfully, for the Democratic nomination and then (equally unsuccessfully) as John Kerry's vice-presidential running-mate. Those campaigns were built around his youthful charm, made-for-politics biography (the son of a mill-worker in North Carolina; the first member of his family to go to college) and a rousing stump speech about “two Americas”, one for the rich and one for the rest.

His life-story loomed large because the dashing former trial lawyer was short of both substance and political experience. He was a one-term senator with a silver tongue and populist touch but an unremarkable legislative record. (He voted against two of George Bush's three tax cuts but for the war in Iraq.)

Four years on, his experience of government is still thin. Having left the Senate in 2004 he has spent less time making laws (six years) than Barack Obama, who was a state senator for eight years and has been a senator in Washington for two and a half. But Mr Edwards is no longer a policy neophyte. Instead, he has positioned himself as the voice of his party's left wing. He renounced his support for the Iraq war in 2005 (Mr Obama never supported it, however) and has been a powerful critic since. He has steeped himself in progressive causes, particularly the battle against poverty, founding a centre at the University of North Carolina to study ways to combat deprivation. And he has assiduously built ties with the unions.

The transformation on Iraq is the most dramatic. Mr Edwards

wants American soldiers out fast (an immediate reduction of 40,000-50,000, followed by an “orderly and complete” withdrawal of combat forces within a year). He excoriates Congress and his Democratic rivals for failing to force the president's hand by denying funding for the war. “Congress has a responsibility to force George Bush to end this war,” he intones in every speech. No serious Democratic candidate is more searing in his condemnation of America's present course. (The war on terror is a “bumper-sticker, not a plan”, he mocks.)



But far from turning inward to concentrate on domestic problems, he wants to “re-engage the world with the full weight of [America's] moral leadership”. That demands change at home, notably on global warming, but also commitments abroad. Enough troops should stay near Iraq to “prevent a genocide, deter a regional spillover of the civil war, and prevent an al-Qaeda safe haven”. He wants a big increase in foreign aid and a “Marshall Corps” of 10,000 bankers, political scientists and other experts to help failing states. There is a dissonance here. How can Mr Edwards pull out of Iraq while also forestalling the re-emergence of al-Qaeda? But for all his efforts to woo the anti-war wing, he is free of the isolationist flavour of most populist politicians.

Champion of the poor

On economics, too, the Edwards brand of populism is hard to pigeonhole. With roots in the textile mills and strong links to the unions, he is regarded as the most protectionist of the Democratic front-runners—though the margins are narrowing fast as Hillary Clinton stages a retreat from her husband's embrace of free trade.

He offers plenty of standard populist cant: lots of talk about “fairness”; rants against oil firms for price gouging and drug companies for rocketing health costs; and—this year's favourite villain—anger at mortgage lenders for ripping off poor home-owners. (He calls it the “wild west of the credit industry, where...abusive and predatory lenders are robbing families blind.”) A recent speech decried an economy that rewarded “wealth not work”, a tax system that favoured the rich and a government that served only special interests. Yet for all that Mr Edwards is less a redistributionist firebrand than a big-government do-gooder. He is intent on helping the poor more than soaking the rich; his inspiration is Robert Kennedy, not Huey Long.

The Edwards campaign openly evokes RFK's 1968 presidential bid, which combined vocal opposition to an unpopular war with a telegenic focus on alleviating poverty. Mr Edwards launched his candidacy outside a wrecked house in New Orleans's ninth ward. This week he spent three days on an anti-poverty tour, one that finished, not uncoincidentally, in Prestonburg, Kentucky, where Kennedy ended his own poverty tour 40 years ago.

Look beyond the unsubtle imagery, however, and Mr Edwards's anti-poverty plan is an intriguing mix. His goals are bold—to cut America's poverty rate of 12.6% by a third within a decade—but the means are mainstream. His policy arsenal includes expanding the Earned Income Tax Credit, a kind of negative income tax that tops up the earnings of poorer Americans; giving poor people “work bonds” to boost their saving; and providing 1m housing vouchers to help poor families move to better neighbourhoods. Policy wonks argue about whether these ideas, particularly housing vouchers, will work, but they could all have come from a centrist Democratic think-tank.

The combination of bold goals and mainstream means is evident in two other Edwards plans: health care and energy reform. And it is why his campaign, regardless of its electoral fortunes, is shaping the Democratic race. Unable to dismiss his proposals as crazy radicalism, the other candidates have to be both bolder and more detailed than they would like.

Consider health. Mr Edwards released his ideas for universal insurance in February, almost two years before election day. He steered clear of the approach favoured by the party's left—a single-payer system, like Canada's or Britain's. Instead his plan has ingredients that were introduced in Massachusetts by Mitt Romney, now a Republican presidential candidate: an overhaul of insurance markets, subsidies to help poorer people pay their premiums, taxes on firms that do not provide health-care coverage for their

workers, and a requirement that everyone should buy health insurance.

His proposal does nod to the left: a government health scheme, akin to Medicare, would compete with private insurers, potentially opening the door to a single-payer system if everyone chose to join the public scheme. But it does not seem threateningly radical. As a result, it has become the standard against which other Democratic candidates are judged. Mr Obama, who recently released a paler version of the Edwards ideas, was criticised for not requiring people to buy health insurance.

On global warming, too, the Edwards campaign has set the pace. He wants to reduce America's greenhouse-gas emissions by 80% before 2050 with a cap-and-trade system of carbon permits. He also touts reforms of the electricity grid, improvements in energy efficiency and vast investment in renewable energy. Those targets match the toughest bill now in Congress. Mrs Clinton and Mr Obama signed on to this bill soon after the Edwards energy plan was released.

AP

How it ended last time

These ideas do not come cheap. Universal health care will cost some $90 billion-$120 billion a year; the poverty plan $15 billion-$20 billion; the renewable energy fund another $13 billion (though the auction of carbon permits and elimination of subsidies for oil firms should cover some of that). Add in a rag-bag of other ideas and you easily reach some $150 billion of new spending a year, well over 1% of GDP. That, however, is about what the Iraq war is currently consuming.

Plainly, the new spending will require higher taxes. Mr Edwards has been more willing than his competitors to admit that he will go beyond the Democrat commonplace of rolling back Mr Bush's tax cuts for those making over $200,000. He has hinted at raising the tax rate on capital gains, arguing that it is “not right” for income from wealth and work to be treated differently. Recently he became the first presidential candidate to endorse Democratic lawmakers' efforts to end the preferential taxation of “carried interest”, a tax loophole for private-equity firms and hedge funds.

The three Hs

Raising taxes on hedge funds fits the image Mr Edwards is trying for. But it also points to his biggest weaknesses, known as the “three Hs”. The working-class hero worked for a hedge fund, earning $479,000 as a consultant for Fortress Investment Group last year; he is building a 28,000ft (2,600 square metre) house; and he charged two $400 haircuts to his campaign.

An expensively coiffed mansion-builder is all too easy to ridicule as a champion of the poor. And the haircut gaffe echoes the reputation for preferring style to substance that dogged Mr Edwards in 2004. (Judging by a gaggle of schoolteachers in Iowa, the pretty-boy problem has not gone away. “Can I lift up his coat?” giggled one as she waited for a photograph.)

By and large, though, Iowa Democrats are buying Mr Edwards's brand of populism. He has campaigned hard there, visiting the state more than 20 times in the past two years. His strategy depends on doing well in the first-off Iowa caucuses, and at present he leads the pack in polls there, though Mrs Clinton is closing in fast. Nationally, Mr Edwards trails far behind Mrs Clinton and Mr Obama, both in polls and the race for cash. He raised only $9m between April and June, compared with Mr Obama's $32.5m.

Surprisingly, perhaps, Mr Edwards's brand of populism seems to appeal to Republicans. When pitted against Republican candidates in polls, he scores better than the other Democratic front-runners. But it is the primaries that matter, and there Mr Edwards must hope for one of the others to stumble. If Obamamania fades, or the Clinton machine stalls, an Edwards nomination is just possible. But even if the man himself does not make it, the Democrats' presidential platform will be shaped by Mr Edwards's plans.

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Health care

A capital idea

Jul 19th 2007 | WASHINGTON, DC
From The Economist print edition

The push for universal health care at last hits Congress

AP

"WE'RE right at the cusp of an ideological truce on health care," declares a beaming Ron Wyden. The Democratic senator has reason to be pleased. A version of his Healthy Americans Act, an ambitious health-reform bill aimed at universal coverage that he has already introduced into the Senate, was due to go to the House this week. At that point, his bill will become the first bipartisan, bicameral congressional effort in over a decade to tackle the issue of extending health care to the country's growing legion of uninsured.

Hillary Clinton's effort was the previous one: a disastrous attempt to promote a government-run health scheme at the start of her husband's first administration. That plan backfired, in part because the vast majority of Americans in 1993 had decent health-insurance plans through their employers and feared ending up worse off.

Today, though, Americans are increasingly unhappy with the health system. Congressman Brian Baird, a co-sponsor of the House version of the universal-care bill, argues that many millions have lost their employer-provided insurance since the failure of the Clinton plan and even more fear they might. Such widespread insecurity has breathed new life into reform.

Both versions of the bill require individuals to buy their insurance, and include insurance-market reform and subsidies to make sure that all Americans can do so. They also end the current tax break for health insurance provided by employers, which should break the link between insurance and employment by making coverage portable.

That appeals to businesses, which, like individuals, are feeling increasingly insecure as the cost of employee health benefits continues to soar well above the rate of inflation. Wal-Mart, America's biggest retailer, has been loudly pushing for universal coverage, and the current bipartisan efforts in Congress have won praise from General Mills, a big cereal manufacturer, Aetna, an insurance giant, and other firms.

The best reason to think that top-down reform might work comes, ironically, from bottom-up efforts. A number of states are now experimenting with health reform. Massachusetts already has a plan up and running that involves an individual requirement to buy coverage, subsidies for the poorest and a state-supervised insurance exchange. California's legislature is even now haggling with Governor Arnold Schwarzenegger over his plan for coverage, which adds an employer tax on top of the Massachusetts model (the Golden State has far more uninsured who need subsidies). This battle is expected to come to a head in September.

With such activity at state level, some conservatives think Congress should do nothing. Mr Wyden strongly disagrees. He observes that even the most ingenious state cannot fix several of the central problems, including the Medicare scheme for the elderly and the federal tax break for employer-provided health insurance, which has encouraged profligacy.

Federal efforts still face a formidable obstacle: the partisan slanging of the presidential election cycle. Congress and the White House even traded barbs this week over the State Children's Health Insurance Programme (SCHIP), a popular scheme that subsidises coverage for children. The Senate Finance Committee floated a plan to renew and expand SCHIP using money raised from new tobacco taxes. It had bipartisan support, yet the White House, playing to right-wing fears of creeping government

expansion, threatened this week to veto the effort.

Mr Wyden thinks this is just posturing. Soon, he believes, Congress will reach a compromise on the popular SCHIP programme, and then move on to real health reform. Perhaps he is right, for already in this campaign health care is the top domestic policy issue. John Edwards has proposed his universal-coverage plan, and Mitt Romney, a Republican ex-governor of Massachusetts, will make much of that state's health reforms if he wins his party's nomination. Perhaps—though don't hold your breath—the moment has indeed come for an ideological truce.

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Ron Paul

Paul the apostate

Jul 19th 2007 | LAKE JACKSON, TEXAS
From The Economist print edition

Is this would-be president brave or crazy?

RON PAUL, a libertarian Republican congressman from Texas, likes to say what he thinks. And among the things he thinks is that the census is a violation of privacy. He has opted out of the congressional pension programme. He claims never to have voted for a tax increase, or for an unbalanced budget, or for a congressional pay rise and never to have gone on a congressional junket. He wants to return to the gold standard. Most notably, he strongly opposes the Iraq war and has from the beginning.

Mr Paul is running for president. And according to the latest report from the Federal Election Commission, he is in better financial shape than John McCain, once the front-runner. Mr Paul raised $2.4m in the second quarter of the year, has roughly that much on hand, and has no debts. Mr McCain raised far more money but spent it just as fast, ending the quarter with $3.2m on hand but with $1.8m in debt.

Mr Paul represents Lake Jackson, a pretty coastal city that looks like an advertisement for planned community life. On a recent summer evening, children splashed in a fountain next to the bustling public library, and a family of four cycled single-file down That Way drive. In some ways, Mr Paul is an odd choice to represent the area. Although the Gulf coast is vulnerable to flooding, for example, he wants the Federal Emergency Management Agency not to interfere. But he has deep roots in the area. For a time he was the only obstetrician in Brazoria County and he has delivered many local residents.

Running for president as the Libertarian Party candidate in 1988 (while still, oddly, a Republican) helped Mr Paul acquire a small cadre of devoted supporters around the country. But he was widely unknown until this May, when he enlivened a Republican debate by saying that Middle Eastern terrorists struck at the United States in part because “we've been over there; we've been bombing Iraq for ten years.” Rudy Giuliani, a former mayor of New York, promptly tore into him. The crowd cheered Mr Giuliani.

It seemed that Mr Paul would be ostracised. But since then he has been vigorously defended by libertarian internet buffs everywhere. (His supporters are diligent correspondents and, having published this article, *The Economist* expects to hear from them.) The singer Barry Manilow has donated to his campaign. An Indiana company is putting his face on their specie-backed Liberty Dollars. Mr Paul's spokesman said that the Liberty Dollars are nice, but supporters should keep sending regular ones.

Several months ago, Mr Paul got a consistent 1% of the Republican vote. In a Gallup poll released this week, he had tripled that. Although he had better not choose his White House curtains just yet, the Texan's presence could invigorate the Republicans. Even those who question his plans to withdraw from the UN can appreciate his candour.

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New York's firemen

The swift-trucking of Rudy

Jul 19th 2007 | NEW YORK
From The Economist print edition

The heroes of September 11th are at odds with each other

FIREMEN are must-have dates for breakfast, lunch or dinner if you are an aspiring presidential candidate these days. Fred Thompson and John McCain, on the Republican side, have broken bread with officials from the main fire fighters' union recently. For the Democrats, Hillary Clinton, Joseph Biden and Chris Dodd have all shared their tables. Everyone, pretty much, except the candidate one might most associate with the profession—Rudy Giuliani, mayor of New York on September 11th 2001. And therein lies a tale.

Whatever people might think of Mr Giuliani, few have questioned his steadfastness on that terrible morning. While George Bush criss-crossed the country, Mr Giuliani comforted not just his city, but the entire country. He became an inspirational figure, getting to the World Trade Centre (WTC) within minutes, rallying rescue workers and narrowly escaping death himself. Much of his presidential campaign relies on the credentials he earned that day. But not everyone recognises them. The International Association of Fire Fighters, which represents some 280,000 union members, released a scathing video last week that slammed the former mayor for “leadership failures” before, during and after the attacks.

The 13-minute video pairs images from that day with interviews with victims' relatives and union officials, who claim Mr Giuliani equipped firemen with defective radios, which they say meant scores of them did not hear evacuation orders before the collapse of the second tower. They allege 121 members of the fire department died as a result. The video also points out that Mr Giuliani, despite expert advice to the contrary, put the city's emergency command centre in the WTC, where terrorists had already attacked in 1993.

Thus far, the video has not had the impact the union was hoping for. Mr Giuliani's camp was quick to dismiss the allegations as half-truths and described the union as a partisan organisation that endorses Democrats. They insist that he actually increased the fire department's funding and upgraded its equipment.

Fred Siegel, of the Manhattan Institute, says the video lost some of its impact because it was over the top. Some of its messages were decidedly far-fetched, like the union's assertion that Mr Giuliani scaled back recovery efforts after $200m in gold was recovered from bank vaults at Ground Zero in November 2001.

Still, it will shock many who know Mr Giuliani only as “America's mayor” that, revered as he is, Mr Giuliani is also reviled by many New York firemen. Some say this goes back to tough contract negotiations during his second mayoral term, and also to his decision to reduce the numbers searching for remains. The firemen refused to leave, resulting in a clash with police. Mr Giuliani eventually reversed his decision, but described the insubordinate firemen as “sinful”. Many among their ranks, as well as some victims' families, believe the former mayor has exploited the attacks for political and financial gain. But there seems little chance that Mr Giuliani will be successfully “swift-boated”, like John Kerry, whose presidential run in 2004 was holed by allegations that his Vietnam war record was greatly over-hyped.

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The Catholic church

Doing penance

Jul 19th 2007 | LOS ANGELES
From The Economist print edition

The pain of the sex-abuse scandal may be helping the church

Get article background

AMONG Catholic commentators it has become known as the “long Lent”. In 2002 the *Boston Globe* revealed that priests who were suspected of sexually abusing children had been quietly reassigned to other parishes, where they continued to prey upon the young. Since then revelations of clerical cover-ups have multiplied, together with lawsuits. This week the church performed its biggest act of penance yet, paying $660m to settle claims of sexual abuse by more than 500 people in the archdiocese of Los Angeles.

The large sum partly reflects Los Angeles's size and wealth, but it is mostly the result of a change in the law. In 2003 California temporarily lifted the statute of limitations on civil claims, unleashing a flood of accusations dating back to the 1960s and 1970s. Cardinal Roger Mahony of Los Angeles has said that the church can meet its share of the settlement—some $250m—largely by selling buildings. The rest will be met by insurers and religious orders. But poorer, less well-insured dioceses are in a fix. Facing a costly and embarrassing court battle, the diocese of San Diego went bankrupt earlier this year.

All this has caused enormous pain to the church, not to mention its victims, many of whom are angry that their cases are not being heard in court. And the long Lent is far from over. Other states are mulling laws like California's, and new avenues for litigation are opening—churches may be prosecuted for destroying documents, for example. Yet the fallout from the scandal has not damaged the church as much as the gloomiest prophets foretold. In some ways it has even improved it.

Surprisingly, there has been no exodus from the church. According to Gallup, a pollster, the proportion of Americans who say they are Catholic has held steady at about a quarter for more than a decade. The faithful have not stopped going to Mass—or, at least, the drift away from the pews that began in the 1950s has not accelerated. And the collection plates still rattle. Research by Georgetown University (formally a Jesuit outfit) shows that although giving to diocesan fundraising campaigns dropped sharply after 2002, donations to local parishes did not.

One reason is that Catholic fury has found an outlet in a growing number of lay pressure groups. Voice of the Faithful, which was formed in 2002 and now claims 35,000 members, wants parishioners to have more control over church affairs, although not over doctrine. Another new group led by a former chairman of JPMorgan Chase has nudged the church to become more open about its finances and shrewder in its investments.

Such pressure is squeezing concessions from the church. The archdiocese of Boston, where the scandal began, now releases detailed annual accounts and is trying to persuade parishes to follow suit. Earlier this year, in an important gesture, the archbishop of San Francisco turned up at a lay convocation. Gradually, and with little help from Rome, the American church is becoming better attuned to a flock that has become less deferential and less inclined to take things on trust.

It needs to change, because the church has big problems, most of which existed before 2002 and have nothing to do with sex abuse. Although much healthier than in Europe, it is not growing as quickly as it should be given the scale of Catholic immigration. Latinos, who comprise about one-third of the church, have long been deserting it for evangelicalism, as the many storefront outfits in Hispanic neighbourhoods testify. Most seriously, it is failing to recruit enough priests. Just 475 will be ordained this year, half as many as 40 years ago. The church can no more afford to ignore the scarcity of priests than it can hide evidence of their bad behaviour.

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Compensation after Katrina

By wind or by water

Jul 19th 2007 | NEW ORLEANS
From The Economist print edition

How to stiff both Louisianans and the federal government

THE purpose of the “Road Home” plan was to steer federal aid to Lousiana homeowners whose houses had been trashed by Hurricane Katrina. “Road to Catastrophe” now seems a better name for it. With the storm's second anniversary just around the corner, only about 20% of the programme's 155,000 applicants have got their cheques. And it is now clear that the money will run out long before the last aid-seeker is satisfied, unless there is a huge infusion of cash.

The latest projections estimate a shortfall of almost $5 billion, which would leave one in three applicants with nothing at all. Even those lucky Louisianans who have had letters in the past few weeks have spotted a caveat in the small print: they will get their money only if the programme hasn't run out of cash first.

It is hard to imagine such a capricious outcome in a country as wealthy as America, and Louisiana's governor, Kathleen Blanco, has been in Washington of late, shaking the cup and delivering that message. Ms Blanco may well get her way with Congress, but the Bush administration, which has been stingy with aid to Louisiana from the start, has hinted that a bailout may be vetoed. (The undamaged parts of Louisiana have been stingy, too; the notoriously parochial state legislature, which is wrapping up its annual session, offered up only a third of its $3 billion budget surplus to help shore up the Road Home programme.)

The reasons for the huge shortfall are several. One is just bad maths: the architects of the programme underestimated the number of people who would apply by 30,000. More problematically, they guessed that the average grant would total $60,000. Instead, the typical cheque has been for $79,000, a miscalculation of about a third.

Federal officials have been quick to blame Louisiana for the cash shortage. But much of the reason for the deficit is that insurance companies have short-changed thousands of people, expecting that the Road Home would pick up the slack. A state report estimates that half the shortfall, perhaps $1.5 billion, may be caused by insurance underpayments.

The companies also went further. A typical private home-insurance policy covers wind damage, whereas flood insurance is provided only by the federal government. The feds, in the name of efficiency, allowed private insurers to settle both flood and wind claims after Katrina. But if you were an insurance company, and you had the choice of paying claims out of your own pocket or someone else's, which would you pick?

In a number of instances, insurers seem to have ascribed nearly all damage to flooding rather than wind—even in some places that never saw any high water. Some adjusters have used two wildly different price lists to settle claims: a generous one for flood damage and a stingy one for wind. In this way, the industry may have shifted billions in claims on to the federal government.

So far the government has mostly stood by the industry, and seems disinclined to investigate. David Maurstad, director of the National Flood Insurance Programme, said recently that he had “not seen any evidence” that the insurance industry had sought to pin its losses on the flood programme. In New Orleans, the picture looks decidedly more suspicious.

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Lexington

Let the blowhards blow

Jul 19th 2007
From The Economist print edition

Kevin Kallaugher

The case for keeping the airwaves unfair and unbalanced

RUSH LIMBAUGH makes an unusual martyr. He's a rich, white and often rather nasty celebrity. He has the look of a man who eats steak for breakfast. He likes to smoke huge cigars. But a martyr is exactly what he will become if some of America's most prominent politicians get their way.

Richard Durbin, the Senate's second-ranking Democrat, claims that it is time to “reinstitute the fairness doctrine”, referring to a federal rule, in place in 1949-87, that guaranteed “ample play for the free and fair competition of opposing views” on the airwaves. John Kerry, the Democratic nominee in 2004, says that the fairness doctrine ought to come back. “When conservatives got rid of the equal-time requirement...they've been able to squeeze down and squeeze out” opposing views, he says. Dianne Feinstein, chairman of the Senate Rules Committee, says that she is looking at reinstatement. Even Trent Lott, a leading Republican, is hinting at jumping on the bandwagon. “Talk radio is running America,” he complained when the immigration bill went down in flames. “We have to deal with that problem.”

This bandwagon needs to be stopped before it can build up any more speed. America's talk-radio hosts are a rough bunch. Mr Limbaugh is clearly a great broadcasting talent. He is also a caveman. Most of his allies and imitators are cavemen without the talent: try listening to Sean Hannity of an afternoon. And the talk-radio hosts were certainly at their xenophobic worst during the immigration debate. But none of that is a reason for formatting them out of existence. The “fairness doctrine” is a hangover from a prehistoric technological era. It is an assault on free speech. And it embodies a trivial view of what makes for informative reporting. Serious politicians such as Mr Durbin and Ms Feinstein should be ashamed of themselves for digging it up.

The fairness doctrine was introduced in a world when the airwaves were a scarce public commodity dominated by three networks. The doctrine always involved unattractive trade-offs. The Federal Communications Commission (FCC) got into the unfortunate business of regulating political speech and constructing elaborate measures of “fairness”. Broadcasters were forced to accept limits on free speech that print journalists would have gagged on. Pressure groups and litigation fiends had a field day accusing radio stations of bias. Many radio stations avoided controversial subjects altogether in order to spare themselves a visit from FCC snoops.

But these days there is no shortage of radio spectrum. America is buzzing with more than 14,000 radio stations. There is nothing to stop American liberals—or indeed communists, Trotskyites or Spartacists—

from establishing their own stations. The reason why the leftist flagship Air America Radio almost ran aground last year was not because of lack of spectrum but because of lack of talent and good management.

And radio spectrum is only the beginning of it. The years since the Reagan administration pronounced that the fairness doctrine was outdated have seen a media revolution. Not just the arrival of satellite radio and cable television—the average American TV viewer has access to 102 channels—but also the birth of blogs, podcasts, YouTube and God knows what else. Doesn't this new media world guarantee "ample play for the free and fair competition of opposing views"? And doesn't it make the idea of regulating the airwaves in the name of a government-mandated idea of fairness seem a bit quixotic?

The new apostles of "fairness" advance two arguments in favour of going back to the past. The first is that the ownership structure of radio stations is unfair. A handful of mighty companies such as the Sinclair Broadcast Group use their market dominance to push a right-wing agenda. A report by the Centre for American Progress, a liberal think-tank, points out that the top five commercial station-owners overwhelmingly favour conservative talkers over their liberal rivals: 91% of the talk that they broadcast is conservative, compared with just 9% that is liberal.

The NPR effect

The problem with this argument is that talk radio represents only about 3-4% of the radio market. Mr Limbaugh, the biggest right-wing talker, draws 13.5m listeners a week. National Public Radio, which strives to be fair and balanced but leans to the left, draws 20m. The shock jocks who rule many urban markets are also vaguely leftish: Don Imus, who was dumped for his comment about "nappy-headed hos" but who is reportedly planning a comeback, was almost as scathing about George Bush as he was about the Rutgers University women's basketball team. The reason why the likes of Sinclair Broadcast Group have done so well out of talk radio is that they found a market niche of people who feel that their views are marginalised by mainstream radio. One reason why Air America found it hard to find talent and listeners is that most liberals are perfectly happy with NPR.

The second argument is that people ought to be exposed to both sides of the debate. "I have this old-fashioned attitude that when Americans hear both sides of the story, they're in a better position to make a decision," says Mr Durbin. This is all very high-minded. But should the state really be in the business of regulating what political views people are exposed to? Nobody thinks that readers of the *Nation* should be forced to read the *National Review* as well.

Whatever its problems, America does not suffer from a shortage of opinion or debate. The magazine racks of bookstores groan with political magazines. The radio waves buzz with comment from the left-wing Pacifica Radio to the far-right nutcases. Every man and his dog has a blog. The idea that the government should be hauled in to regulate a fraction of this exploding universe is absurd. No wonder Congress has an even lower approval rating than Mr Bush.

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Education in Mexico

“The teacher” holds back the pupils

Jul 19th 2007 | MEXICO CITY
From The Economist print edition

Notimex

Elba Esther Gordillo, an old-fashioned union boss, has a stranglehold over her country's failing schools

Get article background

A YEAR ago Felipe Calderón won a desperately close election for Mexico's presidency by a margin of barely 200,000 votes. While there were many factors behind his victory, one that may have tipped the balance was the support of Elba Esther Gordillo, the head of the National Educational Workers' Union, as the country's teachers' union is called. Ms Gordillo is reckoned by many to be the most powerful woman in Mexico. Indeed, after Mr Calderón, she may be the second most powerful politician in the country.

Ms Gordillo's political power comes mainly from the union's sheer size: with 1.4m members teaching in primary and secondary schools, it is the largest labour union in Latin America. From that political base, Ms Gordillo controls a significant block of deputies in the lower house of the federal Congress, as well as two senators. And while no state governor will say so openly, “none of them will go against her will,” says Carlos Ornelas, an education specialist at Mexico City's Metropolitan Autonomous University.

“*La maestra*” (“the teacher”), as Ms Gordillo is known, is widely reckoned to have reached an unwritten—and maybe even implicit—agreement with Mr Calderón, under which she has swapped her support in other matters for his acquiescence in her grip over the country's schools.

If so, that is a problem. Schooling in Mexico is poor. Mexican pupils came fourth from last in maths and third from last in reading in a ranking of 40 countries published in 2003 by the OECD, a Paris-based think-tank of mainly rich countries.

True, Mexico's performance is on a par with that of other Latin American countries. But it is not good enough if the country is to succeed in attracting the higher-tech businesses that it needs. And it represents a poor return on relatively generous spending: in 2006 government spending on education came to 5.4% of GDP, including 26.8% of the federal discretionary budget. Adding private outlays, total education spending was 7.1% of GDP.

So it is hard to ascribe poor educational performance to lack of money. The problem is how the system is organised. Teachers, including school heads, are accountable to union leaders, not to the education ministry or parents. Teacher evaluation exists in name but not in practice. A significant slice of education spending goes straight to the union. Some 30,000 union officials are on the payroll as teachers; they never set foot in a classroom although there is a teacher shortage in some schools. In 2006, an election

year, 750m pesos ($70m) was transferred from the ministry to the union, a threefold rise over the 250m pesos in transfers in 2005, according to Aldo Muñoz, a political scientist at the Iberoamerican University.

The education secretary, Josefina Vázquez Mota, is one of Mr Calderón's most able ministers. But her influence over the country's schools may in practice be marginal. *La maestra* "negotiates directly with the president," says Eduardo Andere, a professor at ITAM, another Mexico City university. The deputy minister in charge of basic education, Fernando González, is Ms Gordillo's son-in-law.

Ms Vázquez Mota and Mr Calderón both insist that working with the union is the only way towards reform. Mr González talks vaguely of more "transparency" and devolution—of teacher-training to states, and decision-making to schools. But the union shows no interest in the big changes that are needed. Many educationalists want to increase the power and autonomy of head teachers and to make teachers accountable for their pupils' performance.

They complain that the ministry's two main initiatives, both begun under the previous government of Vicente Fox, are cosmetic. One, a scheme called "schools of quality", channels money directly to 38,000 poorly performing schools to help with infrastructure and running costs. The other, Enciclomedia, is a widely praised digital-textbook programme of which over 150,000 copies have been distributed to Mexican schools.

But more basic problems remain untouched. In rural areas, most secondary schools use a distance-learning system called Telesecundaria. Last year, some of them had no television signal for several months, according to José Ángel Pescador, a former education minister.

A reform in 1992 formally devolved responsibility for schools to Mexico's 32 states. This weakened the power of the ministry, a bloated bureaucracy, but not that of the union. Since she became the union's boss with the support of Carlos Salinas in 1989, Ms Gordillo has skilfully allied with each of Mexico's presidents, even as power passed from the Institutional Revolutionary Party (PRI) to the National Action Party (PAN) of Mr Fox and Mr Calderón in 2000. The PRI's defeat completed a gradual transition to democracy. But the union remains a powerful holdover from the old, corporatist Mexico.

It does have a dissident faction, notably in the southern states of Oaxaca, Guerrero and Chiapas. But this is useful to Ms Gordillo, says Mr Andere. It serves to suggest that the union is democratic while having little actual effect—much as small opposition parties served to legitimise the PRI's authoritarian rule. And the dissidents' frequent strikes only serve to show how good Ms Gordillo is at maintaining discipline.

In his first eight months in office, Mr Calderón has already shown himself to be a more determined reformer than Mr Fox. Although the PAN lacks a majority in Congress, his government has secured a reform of civil-service pensions; a tax reform is now under debate. Other measures, including energy reform, lie ahead. For all this legislation, he depends on agreements with the PRI—and on the votes of Ms Gordillo's congressional block. But if he is to bring meaningful change to Mexico's schools, he will have to prepare for what might prove to be the most difficult political confrontation of his presidency.

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Venezuela

Broadcast battles

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Rebirth of a television station

Get article background

JUST seven weeks after disappearing from Venezuelans' television screens when the government refused to renew its broadcasting licence, RCTV is back. But the station, whose opposition politics and “capitalist” programmes aroused the ire of Hugo Chávez, the country's leftist president, is now available only to the roughly two-fifths of households that have access to cable or satellite television.

The station's reappearance, says the government, proves that international criticism of the curtailing of freedom of expression in Venezuela was a storm in a teacup. Officials say RCTV could have switched immediately to become a subscription channel, and that it went off the air only to make a political point. But RCTV counters that it had to rejig its business model to fit lower revenues.

It is not clear how depriving most of the poor, who lack cable and satellite, of what was their favourite channel amounts to “democratisation of the air-waves”, as the government claims. TVes, the new state-run channel which now occupies RCTV's Channel 2 slot, has struggled to reach a tenth of its predecessor's rating. TVes is supposedly a public-service station. But it has swiftly scrapped the newscasts it had commissioned from an independent producer. They were of poor quality, but the reason given by Lil Rodríguez, the channel's director, was that: “The editorial line must be determined by the company.”

Perhaps foreseeing increased take-up of cable and satellite, the information minister suggested that these channels may soon be obliged to carry the (frequent and interminable) speeches to the nation of Mr Chávez, which all free-to-air television and radio stations must broadcast.

The RCTV affair has cost Mr Chávez some international goodwill, and has stirred up fresh opposition at home, notably from a new student movement now preparing to wage a separate battle in defence of university autonomy. Some opinion polls, such as one by Hinterlaces, suggest that Mr Chávez's popularity with Venezuelans has suffered over RCTV. Another equally reputable pollster, Félix Seijas, found that the president's approval rating remains steady at around 70%.

The main potential beneficiary of RCTV's problems is Gustavo Cisneros, who owns its biggest commercial rival, Venevisión. Mr Cisneros, once an opposition supporter, has faced accusations that his channel's anodyne news output is the result of a deal with Mr Chávez. In an editorial broadcast on his own channel, he accused “certain government figures” of wanting only news that was favourable to the regime. But he also said that it was not the role of television to take sides in a political conflict. A fine sentiment, but one that seems unlikely to catch on in Mr Chávez's Venezuela.

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Brazil

An accident waiting to happen?

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AFP

Another tragic crash, another set of questions

THE past year has been a terrible one for Brazil's airlines. On the night of July 17th a packed Airbus 320 jet operated by TAM, the country's leading airline, overshot the runway at São Paulo's Congonhas airport, slid across a busy road and slammed into a nearby warehouse, exploding on impact. All 186 people aboard the flight from Porto Alegre died in the fireball, as well as several more on the ground, making this the worst disaster in the history of civil aviation in Brazil.

The scenes of airports brimming with desperate relatives were horribly familiar. Last September 154 passengers died when a Gol airlines Boeing 737 plunged into the Amazon rainforest after a mid-air collision with an executive jet. Ever since, the country's airline industry has limped from one crisis to another, including chronically delayed flights, rebellious air-traffic controllers and a spate of minor accidents and near-misses.

Within hours of the crash, speculation and finger-pointing began. It happened in driving rain and wind. The pilot is said to have touched down too late and too fast, leaving little room for braking and no margin for error.

But some experts argue that this was an accident waiting to happen. Congonhas's short runways are wedged into the heart of one the world's biggest cities. In February a federal judge banned Fokker 100s and Boeing 737s from using the airport for safety reasons. The ban was later overturned as too “drastic”. The problem is that Congonhas is Brazil's busiest airport, a vital commuter hub. São Paulo's international airport is an hour's drive from the city.

Pilots and engineers counter that airport conditions, not size or location, are what count. Therein lie doubts. On June 29th Infraero, the state airports agency, re-opened the main runway at Congonhas, closed for resurfacing after several planes skidded while landing in rain. Still missing, it is claimed, were the drainage grooves that siphon off rainwater. In a recorded conversation, one pilot warned another: “Be careful not to touch down too late, because it's very slippery.” Infraero denies that the crash was caused by water on the runway. But public confidence has been shattered. The whole governance of Brazilian aviation, split between civilians and military men, needs investigation and reform.

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Panama

Glitter and graft

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A country revamped as a service hub grows at Chinese rates

COMMUTER traffic crawls along Avenida Balboa, the coastal road that is the spine of Panama City, slowed by thousands of new cars. In the city's wealthier districts restaurants are packed, and it is hard to find a street without a skyscraper under construction. While some of its neighbours in Central America struggle with commodity-based economies, Panama is busy reinventing itself as a regional logistics and services hub.

That was a position it enjoyed in the 1970s, when an offshore financial industry briefly flourished. Then came the dark years of Manuel Noriega, a thuggish strongman toppled by an American invasion in 1989. Several undistinguished governments followed.

Several things have now come together to produce an extraordinary boom in Panama. The economy will expand by 11% this year and by over 9% in both 2008 and 2009, according to a forecast by LatinSource, a consultancy. That is faster than anywhere else in Latin America.

The first was the transfer of sovereignty over the Panama Canal in 1999. Since then, the canal has been run as a Panamanian business, rather than a branch of the United States' federal bureaucracy. President Martín Torrijos, who took office in 2004 (and whose father, a military ruler, negotiated the canal handover in the 1970s), pushed through a referendum last year which approved a $5.2 billion plan to expand the canal, doubling its capacity and enabling it to take much bigger ships. Work is due to start in August.

Other big projects are planned in the wake of the canal expansion. Occidental Petroleum, in partnership with Qatar Petroleum, plans an oil refinery, costing $7 billion, at Puerto Armuelles. A consortium led by Hutchison Whampoa, a Hong Kong company, plans to turn Balboa into the largest port in Latin America. China's government-owned shipping operator, COSCO, is competing to build a second mega-port, this one on the Caribbean coast—even though Panama recognises Taiwan. Copa, a local airline, aspires to turn Panama into an alternative regional hub for travellers deterred by the security hassles of Miami airport.

The second factor is that Mr Torrijos's government has been rather more effective than its predecessors. He has cleaned up the public finances, pushing through an unpopular reform of social security. He actively courts foreign investors. He has negotiated a free-trade agreement with the United States, which Panama hopes will soon be ratified by the American Congress. But he also has close ties to other regional leaders, including Cuba's Raúl Castro.

This week Spain's prime minister, José Luis Rodríguez Zapatero, was the latest foreign leader to drop by, with a coterie of businessmen in tow. New foreign direct investment more than doubled in 2006 compared with the previous year, accounting for 16% of GDP—a share that is twice as big as in any other country in the region, according to the UN Economic Commission for Latin America and the Caribbean.

The government has finally got around to developing the prime land once occupied by American military bases in the former Canal Zone. The UN is moving its regional headquarters into one; another will become a technology park. Last week the government signed a contract with London & Regional, a British property company, which plans to build housing and industrial units at the former Howard Air Force base. Some of the new housing is aimed at American retirees, who are flocking to Panama. Donald Trump, an American property developer, is planning a 68-storey hotel and resort.

But as the developers pile in, not everyone is cheering. Some worry that the property bubble will soon burst. Others note that a weak education system does not produce enough engineers or skilled workers. Contractors are likely to import skilled labour from abroad. But with 40% of Panamanians still living in poverty, and unemployment at 8.6% last year (though falling), that will not be popular.

A handful of families continue to control much of the country's wealth and benefit from cosy ties to government while most Panamanians struggle to make ends meet. Mr Torrijos proposes to increase the minimum wage of $300 a month. American diplomats worry that if the benefits of growth don't filter down, the resulting sense of injustice could fuel political radicalisation.

A bigger, related, worry is corruption. Foreign firms are beginning to complain that they are hampered by the informal links between government and local business oligarchs. Sam Taliaferro, an American who runs a property business catering to foreign retirees in Boquete, a hill resort, says that corruption threatens to choke off foreign investment. With three-dozen other investors, he has formed a group to campaign against what he sees as the gouging of foreign firms.

Though Mr Torrijos's government has a cleaner record than its predecessors, it has not been scandal-free. An uncle of the president controversially acquired vacant land, and went on to destroy protected mangrove swamp without the necessary permit. It is hard to judge how deep corruption goes, or how much of an impact it may have on foreign investment. But if Panama's boom is to propel it swiftly to developed-country status over the next decade or so, it would help if it rested on a stronger institutional foundation.

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Pakistan

Politics by other means

Jul 19th 2007 | ISLAMABAD
From The Economist print edition

Reuters

General Musharraf cites the extremist threat to justify staying on as Pakistan's president in uniform. The White House falls for it

Get article background

ELECTIONS loom and Pakistan's president, General Pervez Musharraf, has chosen his campaign strategy: war. This week he declared an open season on Islamist terrorists. “We are in direct confrontation with extremist forces. It is moderates versus extremists.” His comments came after a series of attacks, mainly on the army in North-West Frontier Province (NWFP), claimed more than 100 lives. He also revealed that when his term of office expires in October, he will seek re-election (indirectly, from an electoral college) without stepping down as army chief. He told senior Pakistani journalists that a purely civilian government would not be strong enough to control extremists.

The general sought to allay fears about the future of democratic rule by denying that a state of emergency would be imposed, and promising that general elections would be held by early next year. American officials profess themselves reassured by his commitment to “free and fair” elections. Opposition parties question whether elections held under his auspices will be anything of the sort.

More and more Pakistanis seem disenchanted with General Musharraf, now in power for eight years. His critics feel vindicated. They had predicted that he would use the violence that followed the storming of a radical mosque in the capital Islamabad earlier this month to justify extending military rule. Conspiracy theorists went further, suggesting he had engineered the showdown for just this reason.

General Musharraf had been under pressure from a burgeoning opposition movement, formed in reaction to his attempt to sack the chief justice in March. Pakistan also faces a humanitarian disaster: flooding has affected 2.2m people in the poor, restive province of Baluchistan.

The general's robust declaration will have been music to the ears of his American backers, who had long lamented their ally's reluctance to show whole-hearted commitment to eliminating al-Qaeda and Taliban holdouts. The storming of the Red Mosque, in which more than 100 people were killed, including 73 suspected militants, changed all that. “It's pretty much crossing a line and there's no going back,” said Richard Boucher, America's assistant secretary of state for South Asia.

At funeral prayers for his brother, who was killed at the mosque, Maulana Abdul Aziz, its leading cleric, forecast that the deaths of the militants would push Pakistan toward an “Islamic revolution”. Ayman al-Zawahiri, a top al-Qaeda leader, issued a call to arms, telling Pakistanis that “Musharraf and his hunting dogs have rubbed your honour in the dirt in the service of the Crusaders and the Jews.”

Since the bloodshed at the Red Mosque, attacks on the security forces have intensified. In one of a daily series of murderous onslaughts, a suicide-bomber on July 15th attacked an army convoy and killed at least 24 soldiers in Swat in North-West Frontier Province. Militants detonated a bomb and then opened fire on a convoy near Miran Shah in the North Waziristan tribal area on the Afghan border, killing 16 soldiers. The security forces have suffered numerous other roadside bombs, rocket-attacks and suicide-bombings.

The violence was ratcheted up further when pro-Taliban militants in North Waziristan called off their ten-month-old peace deal with the government. They accused the authorities of violating the pact. The end of the deal is a blow to General Musharraf's strategy in the tribal areas. This committed the army to withdraw from the area around Miran Shah, turning all control over to tribal elders. In return, tribesmen would prevent Taliban and al-Qaeda forces sheltering in Waziristan from entering Afghanistan. Some 600 Pakistani soldiers had died in military operations on the frontier, stoking resentment of General Musharraf among both civilians and the armed forces. Now, contrary to his own military instincts and the wishes of his high command, General Musharraf has announced the redeployment of two divisions to the region. But he said he will still be seeking peace with the militants.

Senior American officials had criticised the original deal as a failure for both Pakistan and America. The new fighting will complicate American efforts to implement a five-year development programme, pledging $750m for the tribal areas to win some hearts and minds. But, as the White House this week released a bleak intelligence assessment of the al-Qaeda threat, American officials will have been cheered by the collapse of the deal, if not by General Musharraf's hopes for its resurrection.

On July 17th the killing returned to Islamabad. A suicide attack at a rally held by the chief justice killed at least 16 people and wounded more than 40. No one claimed responsibility for the attack. Its aims were unclear; its achievement was to throw the country into greater disarray.

The general hopes to unite Pakistan in a foray against extremists, cheered on by America. But his refusal to shed his uniform will be criticised by many as illegal. His decision to seek re-election from the existing electoral college, rather than one reconstituted after the general elections, will be seen as at best slippery. To win legitimacy, he may yet need to do a deal with leading secular politicians, notably Benazir Bhutto, an exiled former prime minister. But, true to his commando training, the general has, in the jargon of Western diplomats, “retaken the initiative”.

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Dealing with North Korea, continued

Tempting Mr Kim

Jul 19th 2007
From The Economist print edition

Yongbyon shuts, but not irreversibly. With Kim Jong Il, nothing is ever that easy

Get article background

TO A diplomat who had nodded off, it could almost be 1994 all over again. North Korea's offending plutonium-producing nuclear reactor at Yongbyon, north of the capital, Pyongyang, has just been shut off; four other facilities, including one that makes nuclear fuel and another that extracts bomb-usable plutonium from spent reactor fuel-rods, are being shuttered this week by international inspectors. The oil spigot to North Korea has been turned on: South Korea dispatched the second shipment of what is to be the equivalent of 50,000 tons of heavy fuel oil to the North—as compensation for the initial shutdown, with another 950,000 tons on tap as Kim Jong Il progressively declares and then dismantles his bomb-making programmes and his bombs.

The good news is that neighbours, who in 1994 left America to deal with North Korea on its own, are this time around the table. Six-party talks in Beijing that also included South Korea, Japan, China and Russia, resumed this week and were extended for an unscheduled third day, raising hopes that everyone was ready to move on to the next stages of a collective deal they had struck in February.

America is keen to move on swiftly. Disabling North Korea's Yongbyon reactor could be done by year's end, says Christopher Hill, America's negotiator. But Mr Hill also admits that he never thought it would take this long to shut Yongbyon down: supposed to be done in just a few weeks, it has taken five months to achieve. The hold-up was partly to satisfy a North Korean condition for the February agreement: that $25m of its mostly ill-gotten gains frozen in accounts at Banco Delta Asia in Macau be released. But Mr Kim set a second condition that was not part of the deal: that the money be made “clean” again by transferring it to a North Korean bank via the international financial system.

He is likely to be just as canny over disabling his Yongbyon facilities, says Mark Fitzpatrick of the London-based International Institute for Strategic Studies. Under the 1994 deal, fuel rods from the reactor there were to have been packaged up and shipped out of the country, he points out, but North Korea dragged its feet, citing safety concerns, and the rods stayed put. When that deal collapsed in 2002 after America confronted North Korea with evidence of its cheating—secretly buying equipment to enrich uranium (another bomb ingredient)—Mr Kim tossed out inspectors, extracted the plutonium from the rods and says he built bombs with it.

Another potential sticking-point this time is that North Korea is supposed to discuss a plausible list of all other nuclear facilities and materials it has, including any related to uranium, in preparation for declaring and then getting rid of them. But Mr Kim denies he has a uranium programme, even though Pakistan admits that a disgraced nuclear scientist, Abdul Qadeer Khan, sold him about 20 uranium-spinning centrifuge machines, and North Korea has attempted to buy other related equipment on the black market. This much America is sure of; what it doesn't know is what Mr Kim has done with it all.

This week Mr Hill would not be drawn on whether the uranium issue needs to be tackled before the six foreign ministers get together to launch the next bits of the deal (which is what the agreement seems to say). He said only that they would “need a reason” to meet. If North Korea co-operates, that could happen ahead of an APEC (Asia-Pacific Economic Co-operation) summit in Australia in early September.

Keeping the deal on track will be hard. Five working groups—on denuclearisation, the normalisation of relations with America and with Japan, economic assistance and the creation of a security mechanism for North-East Asia—now resume work. But there is no agreement on what steps will trigger additional energy and other aid, and in what sequence. For its part, North Korea says sanctions on its economy will have to be lifted before it will move on denuclearisation. And Mr Kim can be infuriatingly obstinate.

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Japan

Longing for Lionheart

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Political nostalgia for the Koizumi era, but is it really over?

Japan's politics

HE HAS been in office for only ten months, but the fate of Shinzo Abe hangs on upper-house elections on July 29th. Voters appear to think the conservative prime minister, who emphasises “patriotic” education in schools and rewriting the pacifist constitution, is out of touch with their concerns about jobs and welfare; a scandal involving lost records at the pensions agency has caused particular upset. Mr Abe's popularity ratings have plunged. So the elections have become a vote of confidence in the prime minister himself. This week he faced another test: an earthquake that killed ten people and damaged a nuclear plant, giving Mr Abe the chance to sound tough on its owners, who were slow in admitting the leakage.

The coalition that the Liberal Democratic Party (LDP) leads is almost certain to lose seats, and probably its upper-house majority. If the coalition falls just a few seats short of a majority, Mr Abe might stumble on. A worse defeat might trigger a leadership race within the LDP. Yet the likeliest winner, Taro Aso, the foreign minister, lacks the zeal that voters appear to want for tackling domestic concerns, and has a nationalist agenda very like Mr Abe's. So he would face similar difficulties. A third scenario, says one LDP politician, would be such a humiliating defeat that his party would choose a grand old man, probably Yasuo Fukuda, 71, as a caretaker prime minister. By definition, such a job would be short-lived. So in all these scenarios a period of political uncertainty looms. Some analysts forecast a reversion to the political instability of the 1990s, when Japan got through ten prime ministers in a dozen years and when the redoubtable LDP itself briefly lost power.

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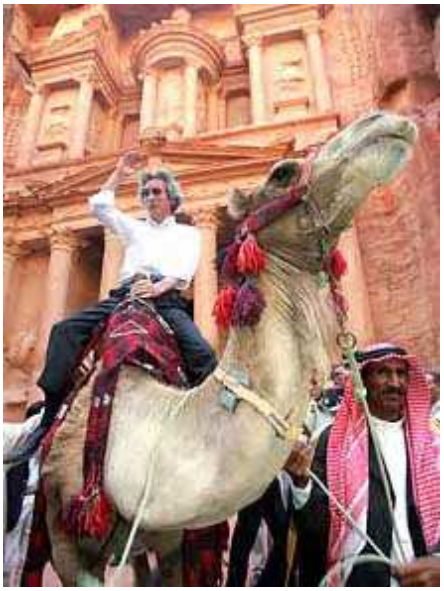

Koizumi showing the way

If Japan is reverting to type, the argument goes, then the period of Mr Abe's predecessor, Junichiro Koizumi, was an aberration. Mr Koizumi was certainly unusual. A lion-maned maverick, he displayed leadership rare in a Japanese prime minister. He championed reforms and took on the vested interests within his own party, and the system of competing factions for distributing plum posts and other favours. Achievements fell short of the promises, but voters loved it, returning Mr Koizumi and his party in a landslide general election in 2005.

Last year Mr Koizumi stood down early. He said he wanted to have time again to dine well and listen to opera. A backbencher, Mr Koizumi gives no press interviews nor any sign of wanting to return to run the country—though even some enemies in his party now wish he would.

Yet his reformist supporters in the Diet may not share the LDP's general despair. Indeed, some of those known as “Koizumi's children”, who swept into the Diet on Mr Koizumi's reformist coat-tails, think their time might be coming. When he stepped down, Mr Koizumi urged this group not to join any party faction, and about half of the original 80-odd have complied. In June some 30 of them began holding regular biweekly meetings—just as mainstream factions do. They have become, in effect, a non-faction faction, with Mr Koizumi as their unspoken head.

Some modernisers within the LDP, including among Koizumi's children, see little hope of more stable politics and more sensible policymaking in Japan without a split in the LDP. Reformists would part with the party's old dinosaurs and join with like-minded folk in the opposition Democratic Party of Japan (DPJ).

Yet Kuniko Inoguchi, a minister under Mr Koizumi and a leading light in his non-faction, casts doubt on the idea. No new party could match the LDP's organisational powers, she says, and Mr Koizumi knows this

better than anyone. Hence the importance of the “revolutionary” non-faction. Market-oriented and internationalist, it will be needed to serve in the post-election regime, and to draw defectors from the DPJ. So, says Mrs Inoguchi, “Mr Koizumi's influence will in time become only more powerful.” If she is right, then Mr Abe, not Lionheart, is the aberration.

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AIDS in India

Not half as bad

Jul 19th 2007 | CHURACHANDPUR
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The latest estimates suggest HIV is less prevalent in India than was feared

BIAKI LALBIAKSANG looks almost dead. Stretched on a bed-sheet depicting bright-coloured toy letter-blocks, the 29-year-old is pale, wasted and shining with sweat. In better times, she worked as a prostitute to finance a heroin habit. One way or the other, she contracted HIV.

Consigned to the Shalom hospice, a collection of wooden shacks in Churachandpur, in India's north-eastern state of Manipur, her plight is wretched. But Ms Lalbiaksang's CD4 count, a measure of immunity, suggests she has not yet developed full-blown AIDS. Soon she will be eligible to receive antiretroviral drugs (ARVs), which both India's health ministry and Médecins Sans Frontières (MSF), an NGO, began distributing in Churachandpur early this year. On ARVs, Ms Lalbiaksang should live for a decade or more. And she will be less infectious.

India's prospects of combating HIV have also brightened. This month the country's National AIDS Control Organisation (NACO) slashed its estimate of the number of Indians infected with HIV, from 5.2m to 2.5m. The revised estimate was based on an expanded sample, covering more low-risk groups and regions, and a new way of extrapolating from these data. Yet even the old methods would produce a lower estimate, of 4.9m.

United Nations' organisations backed the new number. The UN's own former estimate, 5.7m, put India ahead of South Africa as the country with the most HIV sufferers—a detested mantle. More important, the revised figure is only the latest sign that the raging Africa-style AIDS epidemic long feared for India is not developing. It may yet do so. In India, health is an issue for states rather than the federal government, and its epidemic shows huge regional differences. In five states, more than 1% of the population is HIV positive: Andhra Pradesh, Maharashtra, Karnataka, Manipur and Nagaland. Tamil Nadu has dropped off that list, with a prevalence of 0.6%—half the figure calculated in 2001.

The news from the remote north-east is less encouraging. On the edge of South-East Asia's opium-growing “Golden Triangle”, the epidemic is driven by needle-swapping drug-users. In Manipur, the worst-affected state, a long-running insurgency exacerbates this blight. The district of Churachandpur has seen fair progress. In 2003 testing of pregnant women suggested 5% of the local population were HIV-infected; the latest figure is 2.3%. But overall Manipur's epidemic has risen, to afflict 1.8% of the population. As the conflict continues, the prospects for reversing this trend are discouraging. As one of many security restrictions, MSF may operate in only two of the state's nine districts.

In several states with low incidences of HIV there are also worrying indicators. Only 0.3% of West Bengal's 80m people are HIV positive, for example, yet this includes over 6% of the state's prostitutes. Unchecked, the virus generally takes five years to spread from high-risk groups to the general population. So the state should fear a serious epidemic.

Regional disparities suggest India's AIDS control efforts have been patchy at best. Many Indians argue the country will avoid an African-style holocaust because its people are less promiscuous than Africans. But urbanisation is testing traditional ways. Just this week, Renuka Chowdhury, the minister for women and children, urged Indian women not to trust their menfolk, and to keep condoms at home.

NACO has launched the third phase of its AIDS control programme, which will cost 115 billion rupees ($2.8 billion) over five years. Most of this money—almost all from foreign donors—will, sensibly enough, go to preventing the virus's spread. But it leaves relatively scant resources for treating Indians who

already have AIDS. Currently 80,000 Indians receive ARVs. By 2012 NACO aims to provide treatment for 350,000. This might seem modest—even if the number of India's HIV sufferers were to fall by half again.

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Bangladesh

Lock up your leading ladies

Jul 19th 2007
From The Economist print edition

A curious democratic roadmap

Get article background

IN MOST countries, ambitious generals and unelected governments have a poor track record of delivering democracy. But this is still the promise to Bangladesh made by the generals who assumed emergency powers in January and the pliable administration they installed. This week the election commission published a roadmap to parliamentary elections to be held before the end of 2008. But the government was silent on when the state of emergency will be lifted.

The next day the government reminded people of one reason why their constitutional rights remain suspended. It stepped up its purge of corrupt politicians, officials and businessmen, more than 150 of whom have been arrested since the beginning of the year.

The police arrested and jailed Sheikh Hasina Wajed, prime minister between 1996 and 2001. She is accused of both extortion and complicity in murder. The police also summoned her nemesis, Khaleda Zia, prime minister until last October, but now in effect under house arrest, to appear in court next month. Both leaders will have to submit “wealth statements” to a powerful Anti-Corruption Commission. Unlike Mrs Zia, who has been more or less dropped by her party, Sheikh Hasina is still popular. So security forces were on the alert after her arrest. But protests were patchy rather than nationwide.

The government had earlier tried—and failed—to exile the two “begums”. In April it barred Sheikh Hasina from returning to the country from Britain, but relented under domestic and international pressure. Then it banned her from leaving. If the prosecutions of the two begums fail, it could spell the end of the interim government. The abortive bid to exile the women, who both led kleptocratic regimes, has already badly dented its credibility.

The anti-corruption drive has made the unelected regime relatively popular. But critics are now accusing it of abusing its wide-ranging emergency powers for political purposes. With almost the entire political class behind bars, the fear is that elections staged at the end of the clean-up will produce a puppet regime.

Last week the army chief, General Moeen U Ahmed, said that there was a need to “correct the constitution”, after a new parliament is in place. Though largely unreported, General Ahmed's promotion in May to a four-star rank means that he will stay on as army chief beyond his original retirement date of June 2008 into 2009, beyond the deadline for elections. There is already talk in Dhaka that the army is thinking of changing the constitution along Turkish lines, giving itself a bigger role. This raises a grim prospect of a technocratic, top-down constitutional review, and an outcome few Bangladeshis would accept as legitimate.

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Malaysian conservation

Dolly goes swimming

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From The Economist print edition

AFP

The fisheries department considers cloning leatherback turtles

FIFTY years ago Malaysia's northern state of Terengganu played host to 6,000 to 10,000 leatherback turtle nests every summer. In 1984 there were 800. Last year Kamarruddin Ibrahim, head of the government's turtle centre in Rantau Abang, counted just five. The population has plummeted because local people adore eating leatherback eggs and because fishermen are estimated to pull nearly a quarter of the species' Pacific population from the ocean each year.

Which is why scientists, greens and officials gathered in Kijal, in southern Terengganu, this week to discuss what to do and how to pay for it. Many experts consider Malaysia's leatherbacks as good as gone. The country introduced—and largely enforced—a ban on egg collection in the 1980s but the population nonetheless crashed in the mid-1990s.

Junaidi Che Ayub, head of the fisheries department, has another idea: cloning. As a strategy to save the animal, this is a bad idea. The project is rumoured to cost $9m and may not work. The plan is to develop expertise by trying cloning techniques first on smaller, less endangered, green turtles. Although a few wildlife-loving geneticists have cloned three threatened mammals—an African wildcat, an Asian banteng and a cattle-like creature called a gaur—scientists have yet to manage a reptile (although some reptiles can clone themselves).

Even if it worked, only four out of ten leatherback eggs develop properly. Tony Steyermark, of the University of St Thomas, in Minnesota, calculates that 1,000-odd successful clones would be needed for a fair shot at creating a breeding female, such are the odds of leatherback hatchlings snuffing it. Moreover, cloning fails to shuffle genes, which is the point of sex. Thus a pack of 350kg floating copies stands a worse chance of surviving a new disease than do a handful of genetically different individuals. Mr Junaidi might do better to bully fishermen and buy incubators.

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Papua New Guinea

Left behind by Asia's rise

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From The Economist print edition

Nature has dealt this poor Pacific country a tough hand. Even so, reformers have already shown how it could be doing much better

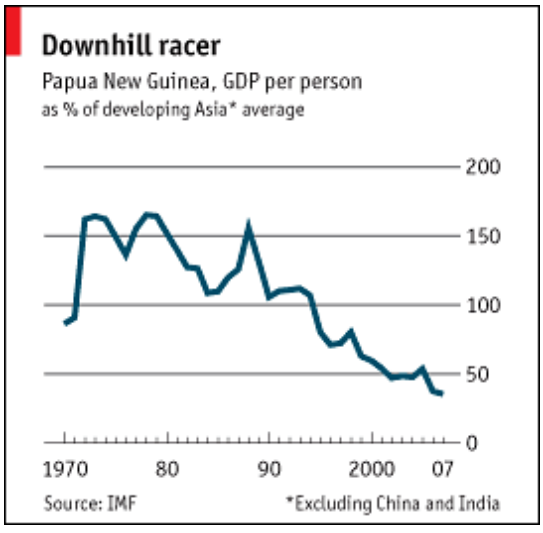
SO FAR Papua New Guinea has had a fairly successful election. A few people have been shot or hacked to death in political squabbles, vote-buying has been rampant and there have been reports of ballot-tampering. But it has gone better than the previous, chaotic election in 2002. Voting across the sparsely populated country of 6m people began on June 30th and, extended when bad weather hampered the movements of election officials, went on until the middle of this month.

Voters in PNG mostly cast their ballots for local personalities. So another mixed-bag coalition, bolted together after fierce haggling, seems likely. It will be weeks before the country knows what sort of a government it has chosen. Unless reformers have a strong hand, the country faces more of the economic and social stagnation it has suffered since gaining independence from Australia in 1975.

Sir Michael Somare, who was prime minister at that time, returned to power in 2002. As he seeks a further mandate, he can boast of much-improved public finances, increased economic growth, and falls in inflation and interest rates. Two rivals for the prime ministership—Sir Mekere Morauta, who held the job in 1999-2002, and Bart Philemon, whom Sir Michael sacked as finance minister last year—say it was their reforms that laid the foundations for economic recovery. Sir Michael's critics also say that public services are at least as dysfunctional and graft-ridden as five years ago.

The economy has been stronger of late but since independence PNG has done shockingly badly, while most of its Asian neighbours have enjoyed rapid development. In 1975 the country was richer than its neighbours, as measured by GDP per head. But as theirs grew sharply, PNG's stagnated, on a combination of weak economic growth and a rapidly rising population (see chart). Manufacturing and service industries remain stunted, leaving the country heavily reliant on mining and plantations. Little of the wealth from these trickles down to ordinary people, most of whom still live from subsistence farming, supplemented by a few meagre cash crops.

The country has many joined-up problems but few joined-up solutions. High crime deters investment and tourism. Partly because many parents struggle to pay the fees, school enrolments are low, meaning poor productivity. Some mothers prostitute themselves to help pay school fees, helping HIV infection spread rapidly. This is hard to curb because nurses do not want to work in poor remote areas, since their children cannot get a good education there. Teachers in turn resist rural jobs because of the lack of health care.



Nature has dealt PNG a tough hand. The country is prone to all sorts of disasters—earthquakes, volcanic eruptions and tsunamis. Many of its people until recently lived in isolated small groups in the highlands, only being “discovered” by the outside world in the mid-20th century. One result of this is an astonishing diversity of traditions and languages (of which there are reckoned to be almost 840). Another is clan rivalry, which often turns violent. All this makes PNG a paradise for anthropologists but hell to govern.

Sir Michael sees himself as the father of PNG's independence—he has even put himself on the 50-kina banknote. He argues that, given its natural and historical handicaps, the country cannot develop at the speed that outsiders expect of it. He talks with pride of being a “great chief” in his home village. His people there rely on him to provide for all their needs. In return they offer their loyalty. Likewise in the

country as a whole: the Westminster system has been “adapted” to local traditions, so members of parliament are given state money to distribute as they see fit in their home districts. Outsiders who call this corruption or patronage-politics “don't understand our culture.”

For the prime minister, it will be perhaps 15 years before PNG can afford free basic education, as his opponents are promising. Having cut the public-debt burden, Sir Michael does not want to take on new loans, even ones on easy terms, to improve the country's degraded infrastructure and public services: “We will develop in our own way,” he insists.

Australia, still by far PNG's largest donor, has recently been sending administrators to help run the government. For a while it sent policemen too, to tackle the *raskols* (armed robbers) who infest the country's highways. But they were sent home after their presence was ruled to be unconstitutional—though the real motive, some say, was that Australian police had traced some corrupt schemes back to people high up in government. Frustrated at the corruption and incompetence in PNG's bureaucracy, Australia has been gradually exerting more control over how its aid is spent, funnelling an increasing share of it through local churches and charities.

AFP

School's out

PNG has the land and climate, and its people the horticultural skills, greatly to boost its agricultural output. With its pristine beaches and jungles, it could be a tourist destination to rival Bali. The high crime rate is a big deterrent to both: coffee growers risk being robbed on the way to and from market, and foreign embassies warn their nationals to think twice about spending their holidays there.

However, an even bigger disincentive to all types of economic development is that everything in PNG is too expensive, does not work, or suffers both these flaws. Electricity, telephone and internet services, in particular, suffer regular outages. The government continues to own and mismanage utilities that would be better off private. The International Monetary Fund reckons that, with reforms, annual growth of 7-8% is possible. But Sir Michael seems too wedded to his traditions to allow that to happen if he is re-elected.

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The Palestinians

Who's in charge?

Jul 19th 2007 | GAZA, NABLUS AND RAMALLAH
From The Economist print edition

AP

The Palestinians' rival groups—Fatah in the West Bank and Hamas in the Gaza Strip—are grappling with the challenges of local rule

FOR years they have fought Israel; now it wants to pardon them. Israeli right-wingers were predictably furious at their government's decision to take 180 members of the al-Aqsa Martyrs' Brigades, the militias loyal to the Palestinians' secular Fatah party, off its most wanted list last week. If they lay down their guns and behave for three months, it will let them move freely in the West Bank for the first time in years.

Most have signed up, though some, like Nasser Abu Aziz, a beefy militant from Nablus, the West Bank's biggest city, who sports a neatly trimmed beard, a commando-style woollen cap and a new-looking M16 rifle, are holding out for something more—possibly promises of jobs from the Palestinian Authority (PA), where many of them once worked in the security services. Fayez Tirawi, a comrade of Abu Aziz who is not on the amnesty list, is more pragmatic. He doubts that Israel will abide by the deal, but is convinced that it is the only way to give Mahmoud Abbas, the PA's president and Fatah boss (pictured above), a chance to prove his claim that he can bring order to the West Bank.

Mr Abbas is not doing this just for Israel. Some self-styled “wanted militants” are, says Shawan Jabareen, director of the al-Haq human-rights centre in Ramallah, “mafiosi” who use patriotism as a cover for crime and extortion. If Mr Abbas can use the amnesty as a first step to bringing these and other gunmen to heel, it will cement his authority in the West Bank. After last month's showdown between Fatah and Hamas left Fatah running the West Bank and the Islamists of Hamas in control of the Gaza Strip, he must convince Palestinians that Fatah can do a better job than Hamas. But these are fragile times. Israel's army still makes near-nightly raids in Nablus and other towns, killing and arresting suspects. If it accidentally kills someone on the list, all bets will be off.

Fragile times, but also strange times. Men like Mr Tirawi are now readier to co-operate with Israel, which has occupied the West Bank for 40 years, than with Hamas, many of whose men they once counted as brothers-in-arms. When he accuses the Islamists of “collaborating with Syria and Iran” and “destroying the national project”, he sounds more like George Bush, who in a speech this week said Hamas was more “devoted to extremism and murder than to serving the Palestinian people”.

Mr Bush says he wants to “boost” Mr Abbas. In his speech, originally scheduled to commemorate the much-trumpeted “vision of two states” he announced five years ago, he promised Mr Abbas $270m in

aid, a loans programme for Palestinian businesses and an “international meeting” on the conflict which may well be just a special session of an already-existing foreign donors' forum. Its time and place have yet to be announced.

But that boosting does not include what even the most moderate Palestinians insist is necessary to make Mr Abbas credible at home: some prior commitments by Israel towards the creation of a Palestinian state. The goals that Mr Bush set each side are similar to those of the long-dormant “road map” towards peace, which leaves those issues to the end. Noticeably, the Palestinian obligations (such as rounding up terrorists) were “musts”, while Israeli ones (such as stopping settlement-building on the West Bank) were “shoulds”, prompting Israeli pundits to comment that Ehud Olmert, the prime minister, need fear no pressure from the Americans.

Mr Abbas, however, is feeling it intensely. The interim government he appointed after the Fatah-Hamas showdown is trying to impose order on the streets and bring the PA's institutions back to life after a year-long aid boycott during Hamas's reign, all while it is in a legal limbo. Parliament must ratify the government but more than half of Hamas's MPs are in Israeli jails and the rest refuse to turn up to vote, so there is no quorum. Early elections, which Mr Abbas has called for, are impossible without Hamas's consent.

Mr Abbas may be trying to manoeuvre the Palestine Liberation Organisation, the worldwide umbrella body (of which he is also chairman), into holding elections for its own representative council for the first time in a decade, perhaps in an attempt to override parliament. He has also signed decrees extending military courts' power and giving the interior ministry the right to close down non-governmental organisations without a court order, measures that Mr Jabareen compares to other, more repressive Arab regimes. It all adds up to a slow dismantling of institutions on which foreign donors have spent billions—with the donors' acquiescence.

Down in Gaza, Hamas has its own problems. Only a few hundred of the 17,000 police are showing up for work, under orders from the government in the West Bank, which pays their salaries. Hamas militiamen are filling the gaps, and there have been cases of torture of Fatah men and attacks on journalists. Raji Sourani, a respected human-rights lawyer, condemns such attacks but says the Hamas leadership seems keen to avoid such “mistakes” and pins much of the blame on Mr Abbas. “How can you tell these people not to turn up for work? They are destroying an existing civil system.”

Still suffocating

Meanwhile, Gaza's border crossings with Israel have stayed shut to all but humanitarian aid since the Hamas takeover. Ban Ki-moon, the UN secretary-general, has given warning that Gaza will become “near totally aid-dependent” unless commercial trade resumes. A telephone poll in Gaza by Near East Consulting, a firm based in Ramallah, the Palestinian capital, found that Mr Abbas now enjoys nearly double the trust rating of Ismail Haniyeh, the Hamas man who was prime minister until Mr Abbas brought in the emergency government, and that if an election were held, Fatah would get double the Hamas vote. Some Fatah and other politicians in the West Bank say they see signs that Hamas is beginning to buckle, and may agree to early elections under public pressure.

At the al-Awda sweet factory in central Gaza, the owner, Manal Hassan, says he is employing only a third of his usual staff of 370, and for less than half the week. But frequent border closures in the past few years have taught him to keep three months of stock; he is happy that Hamas has taken control. “Before, when I went to the bank, I needed to be surrounded by gunmen,” he says. “Now it is safer. I would rather have no money and be safe than have money and be in danger.”

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The Palestinians

The West Bank pimpernel pops up

Jul 19th 2007 | RAMALLAH
From The Economist print edition

A Palestinian hero ceases fire—but for how long?

ISRAEL rarely tells wanted Palestinian militants that they are wanted; they usually learn of their status from the business end of a guided missile. The list of 180 men to whom Israel offered amnesty in a deal with the Palestinian president, Mahmoud Abbas, was for many the first proof that it had them in its sights. But there were never any doubts about Zakaria Zubeidi.

A charismatic 31-year-old with a face blackened and pockmarked, reputedly by what Palestinians call a “work accident” (a mistake with a bomb), he leads the al-Aqsa Brigades, the militias loyal to Mr Abbas's Fatah party, in the northern West Bank town of Jenin. Israeli soldiers first shot him at the age of 13, when he was throwing stones at them in the first *intifada*, and he has survived several attempts to kill him since. In the 1980s he starred in a children's theatre set up in Jenin by an Israeli peace activist, which became a model of co-existence.

AP

Zubeidi's fleeting funereal face

But one by one his fellow actors saw their friends killed and arrested, took up arms and died or were locked up. Mr Zubeidi joined the brigades full-time after an Israeli raid in 2002 that flattened a swathe of Jenin's refugee camp and, according to the UN, killed 52 people (about half of them fighters, half civilians), itself a response to a Palestinian suicide-bomber who had killed 29 Israelis. It was after that, he said, when his Israeli peacenik friends stopped calling, that he lost faith in the peace movement.

This amnesty is not the first attempt to co-opt unruly militants. Many members of the brigades have been in and out of the Palestinian security forces; Mr Zubeidi was briefly in the police. But his branch of the brigades has been suspicious of the Palestinian Authority, and of Mr Abbas, ever since Yasser Arafat's death in 2004. If they think the deal with Israel risks sullying their image as fighters for the Palestinian cause, they—and Mr Zubeidi—will be first to break ranks.

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Nigeria

Shilly-shally

Jul 19th 2007 | LAGOS
From The Economist print edition

The new president is looking hamstrung even before he gets going

Get article background

WHEN Umaru Yar'Adua took his presidential oath on May 29th, he promised to be a “servant leader” and to move speedily towards solving Nigeria's most pressing problems: insurgency and gangsterism in the oil-producing Niger Delta region, an appallingly erratic supply of electricity, and massive endemic corruption. Almost two months later the former chemistry teacher, one of only three post-colonial Nigerian rulers not to have hailed from a military background, has yet to announce his full ministerial team to help him run one of Africa's most troubled and important countries.

The process is tortuously slow because the beleaguered Mr Yar'Adua is under pressure to serve the interests both of Nigeria's powerful political factions and of the allies of Olusegun Obasanjo, his predecessor and mentor, who is still pulling strings as the ruling party's chairman.

EPA

What's under Yar'Adua's hat?

Choosing a government is even harder. Mr Yar'Adua lacks legitimacy in the eyes of many Nigerians because the elections in April were so patently rigged. He must pick good people to regain some legitimacy, but lacks a strong enough political network of his own to resist the pressure to pay off some of his more venal backers. Hence the prevarication and delay.

Mr Obasanjo has already compromised Mr Yar'Adua by foisting on his successor two of his well-known sycophants as Senate president and speaker of the House and, with days to go before stepping down, by naming as the army's new chief of staff a general considered divisive in military circles. Nor has Mr Yar'Adua helped himself by appointing a police chief with a poor reputation who previously headed the police contracts division.

The infighting over top jobs is taking its toll. The new president, who has a kidney ailment, has shown how fed up he has become with the demands being made on him by publicly asking political delegations to stop making congratulatory visits until a “more auspicious” time.

Since then, he has tried to bring opposition members into a national unity government, but this has divided the opposition parties and made some of their factions still more determined to challenge his election victory in court. Earlier this month the new president listed 35 people for ministries but would not say which ones they would get, forcing the Senate to screen the nominees without knowing their responsibilities.

While the horse-trading goes on, the servant leader cannot get to grips with Nigeria's most urgent problems. The Delta region's lawlessness is worsening. This month armed gangs stooped lower than ever by kidnapping toddlers for ransom, including a three-year-old Briton and the son of a prominent chief. Elsewhere a crime wave is spreading; armed robberies are getting more numerous, especially in Lagos, Nigeria's huge commercial capital.

Joseph Makoju, who advises the president on electricity, says he has already lowered the figure Mr Yar'Adua set for boosting power generation by the end of this year from 10,000MW to 8,000MW. That may drop again if the president fails to find a good minister for power soon.

Hurry up before things get worse

The delay in forming a government may also start to threaten Nigeria's macroeconomic stability. The state governors, many of whom also lack legitimacy following the election, want the central government to dish out oil-windfall savings. But without tough new legislation, the windfalls, worth more than $10 billion, may be used as political slush funds. Nonetheless, the government is advertising its success in charging three former state governors with embezzlement and money-laundering: a sign, perhaps, that Mr Yar'Adua is getting tough on corruption.

Yet many other former governors close to the former president seem to have got away with looting their state coffers for the past eight years. With their own protégés now in power in many places, it is hard to imagine Mr Yar'Adua taking them on, particularly since he has ruled out pushing for an amendment that could have stripped them of their constitutional impunity.

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Somalia

Reconciliation is as elusive as ever

Jul 19th 2007 | NAIROBI
From The Economist print edition

A chance of a proper peace any time soon looks slim

Get article background

AN ATTEMPT at national reconciliation finally sputtered into life this week in Somalia's battered capital, Mogadishu. Insecurity had delayed proceedings several times before. The place is as dangerous as ever, but the transitional government sounds more determined. Somalia's internationally recognised but hitherto ineffective president, Abdullahi Yusuf, declared that “not even a nuclear bomb” would distract Somalia's tribal elders from their task of finding a way forward. But few people are betting on success.

Indeed, after opening speeches on July 15th, work was promptly adjourned; the organisers said they needed to wait for more participants. But mortars landing around the bullet-riddled garage serving as a conference hall did not help. An insurgency led by the *Shabab* (“young men”), a hardened jihadist remnant of the militias loyal to the Islamic Courts Union that briefly ran most of Somalia until it was overthrown by an Ethiopian-led force earlier this year, says it will kill anyone who takes part. Somalia's authorities, backed by Ethiopian troops, have sealed off large parts of the city.

AFP

Come back tomorrow, maybe

Tribal elders have chattered their way through dozens of reconciliation meetings since Somalia's central government collapsed in 1991. This time there may be a slightly better chance of groping towards a peace deal leading to elections proposed for 2009, especially if the elders can agree on some relatively simple issues, such as policing, taxation and schools, among other things.

The *Shabab* know their cause will be in jeopardy if they cannot scotch this latest attempt at reconciliation. Al-Qaeda, which is devoting a lot of rhetoric and resources to turning the Horn of Africa into a new battleground, is equally keen to prevent it from getting anywhere. Much will depend on whether Mr Yusuf and his prime minister, Mohammed Ghedi, can be persuaded to invite moderate Islamists and elders from the Hawiye clan, which predominates in Mogadishu and has been broadly hostile to the government.

In its confusion and scope, there are similarities between what is being tried in Somalia and the setting up of the *loya jirga* (“grand assembly”) to draft a new constitution in late 2003 in Afghanistan. The difference is that rich and powerful countries have promised virtually nothing towards rescuing Somalia—and Mogadishu is far more dangerous than Afghanistan's capital, Kabul, was three years ago, particularly for foreigners. Moreover, elsewhere in north-east Africa the mayhem in the Sudanese region of Darfur has grabbed far more attention in international forums.

The African Union, too, has failed to address Somalia effectively. Only Uganda has so far sent peacekeepers, while other African countries make increasingly feeble excuses for their refusal to help out. Diplomats whose governments have been paying for Somalia's reconciliation conference are unlikely to attend, for fear of being blown up or shot.

Meanwhile, many Somalis are dying of diseases worsened by malnutrition and drowning in overloaded smugglers' boats in large numbers as they seek a better life elsewhere. The economy is still a wreck. In recent weeks Somali businessmen have been flying back to the safety of Nairobi, the capital of neighbouring Kenya, along with their money. Mogadishu's big Bakara market has been closed for days; when it is open, grenades and gunfire take the fun out of shopping. And as the reconciliation conference fails to take off in earnest, the danger grows that Mogadishu will soon slide back into anarchy.

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Côte d'Ivoire

A peace plan under threat

Jul 19th 2007 | ABIDJAN
From The Economist print edition

A mysterious attack on the new prime minister has rocked the country again

Get article background

SHORTLY after the aircraft carrying Côte d'Ivoire's new prime minister, Guillaume Soro, landed at Bouaké airport, the country's second city, it was shaken by a big bang. Several members of Mr Soro's entourage were decapitated. Plainly, someone had tried to kill Mr Soro, a rebel chief who had been turned into the prime minister after a recent peace deal. Three rockets killed four of his team and wounded 14 others. Mr Soro himself emerged unscathed, but Côte d'Ivoire's fragile peace has been badly shaken.

It was telling that the assassination attempt, on June 29th, took place in Bouaké. It has been Mr Soro's headquarters since his rebel group, the New Forces, seized the north in 2002, when Mr Soro took up arms to fight what he called the dictatorship of President Laurent Gbagbo—and to end state discrimination against northerners such as himself.

Thanks in part to the presence of UN and French peacekeepers, there has been no heavy fighting since late 2004. After more than two years of stalemate between the northern forces and those loyal to the government, things perked up in March when an agreement was signed by Messrs Gbagbo and Soro in Ouagadougou, capital of neighbouring Burkina Faso. As part of the deal, a UN-patrolled buffer zone between the belligerent parties was removed and Mr Soro accepted the post of prime minister. That caused a lot of grumbling among the northern rebels, many of whom accused their leader of selling out.

As the attack happened in Mr Soro's own stronghold, suspicion fell first on disgruntled dissident rebels. Scores of people were killed in infighting within rebel ranks in 2004, when Mr Soro's own men overcame a group loyal to Ibrahim Coulibaly, widely known as IB. Many Ivorians suspect that IB, a serial coup plotter, was behind this latest attack.

But other possibilities exist. Many of the New Forces, not just IB, are dissatisfied with Mr Soro, who has had to deny rumours that two of his senior commanders were involved in the attack. But others point accusing fingers at Mr Gbagbo, especially after he said he had been ready to send his troops into the rebel-controlled north to “save” his former enemy.

The New Forces have called for an international investigation and want to know why UN peacekeepers at Bouaké airport did not do more to protect Mr Soro, though the UN says that its mandate does not extend to defending the airport; its job is only to protect UN aircraft stationed there.

In any event, a gun-burning ceremony in Bouaké to mark the start of disarmament, which several African leaders were due to attend, has been put off; Mr Gbagbo says it will take place at the end of the month. He also insists that some big steps towards peace will still be taken soon: the start of disarmament; the redeployment of the national administration back into the previously rebel-run north; and the launch of a programme to give Ivorian identity cards to the hundreds of thousands of northerners who do not have them.

But the timetable may slip badly. It is hard to envisage civil servants taking the risk of going back to the rebel-held north if even the prime minister's security cannot be assured. The head of the UN's mission in Côte d'Ivoire, Abou Moussa, admits that southerners are likely to have fresh doubts about going north again. Disarmament and identification, both prerequisites for planned elections, have failed to start so many times that no one assumes they will happen this time round; the date for elections has already been pushed back twice. The airport assassination attempt is the perfect excuse for those who profit from the stalemate to delay the peace process.

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Zimbabwe

Getting horny

Jul 19th 2007 | HARARE
From The Economist print edition

Discouraging a trade that is still rife

ALTHOUGH an extension of the worldwide ban on ivory exports to discourage the illegal killing of African elephants was recently greeted with much fanfare, the rhinoceroses of southern and eastern Africa are still paying with their lives for their horns, which remain prized by the Chinese for their medicinal and aphrodisiac qualities, and by Yemenis for making dagger handles.

According to TRAFFIC, a group that monitors the wildlife trade, the illegal business is on the rise. Last month the Convention on International Trade in Endangered Species of Wild Fauna and Flora, better known as CITES, called for stronger co-operation along smuggling routes and a more secure management of legal horn stocks. Zimbabwe, which has a lot of poaching, has embarked on a more radical route: it says it will start dehorning its rhinos.

Only five species of rhino survive, in Africa and Asia. They were slaughtered on a large scale, mainly by white hunters, in the 19th and 20th centuries. By the 1960s fewer than 70,000 black rhinos were left in Africa, and over the next two decades poachers wiped out 96% of them. But since 1995, thanks to vigorous conservation efforts, the number of black rhinos has gone up again, to around 3,700. The number of white rhinos has nearly doubled over the same period, to over 14,500.

Yet poaching and illegal trading are rife in Zimbabwe and Congo. According to TRAFFIC, poachers have killed 60% of Congo's rhinos in the past three years. In Zimbabwe, poachers have been responsible for most rhino deaths in the same period. Nearly all the private ranches in Zimbabwe that harboured rhinos and deterred poachers have been confiscated. Both countries, with weak and corrupt governments, have a poor record in recovering horns destined for the illegal trade: Congo's government recovered 13% of them and Zimbabwe only 8%, compared with more than 40% across Africa. Dehorning should, in theory, help protect rhinos for a few years—until the horns grow back.

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France's Socialist Party

Royal jelly

Jul 19th 2007 | PARIS
From The Economist print edition

Some deft politicking on the part of the president is helping to push the Socialist Party into ever deeper trouble

Get article background

INEXORABLY, the French Socialist Party is imploding. Defeated for the presidency in May and in the National Assembly elections a month later, it is now being slowly deflated by a combination of internal rivalry, family break-up and the political cunning of France's new centre-right president, Nicolas Sarkozy.

It was bad enough that the Socialists did not win the presidential election, although they did at least increase their parliamentary representation in June. It was the left's election to lose: the right had held the presidency for 12 years, President Jacques Chirac was hugely unpopular, and French voters were in a funk. And yet the Socialist candidate, Ségolène Royal, who lacked a credible, modernising message, still failed to win.

Now the opposition is bleeding talent—to the government. When Mr Sarkozy gave jobs to several Socialists, including making Bernard Kouchner, the co-founder of Médecins Sans Frontières, foreign minister, it was a masterstroke. By forming a broad-based government, he put paid to accusations of ideological sectarianism. But it also helped his strategy to neutralise the Socialist Party. In all, he installed six figures of the left in government. Such is their presence at the foreign ministry that, at last month's European Union summit, Mr Sarkozy joked that he was “the only non-Socialist in the French delegation”.

None of those he seduced was a credible heavyweight leader who might have modernised the left and made it electable again. Even Mr Kouchner, though hugely popular, had been sidelined by the party; when he joined the government, it expelled him. Mr Sarkozy's latest ruse, though, takes a big step further. By persuading fellow Europeans to pick Dominique Strauss-Kahn, a former finance minister, as their nominee to head the IMF, the French president has robbed the party in future years of one of the few leaders who has understood the pressing need to drag it towards the centre.

This week Mr Sarkozy bagged another Socialist grandee, Jack Lang, who also enjoys wide popularity. As one of Ms Royal's campaign advisers he was a harsh critic of Mr Sarkozy. Now Mr Lang has agreed to serve on a commission on constitutional reform. He is joined by a clutch of other left-leaning figures, including Hubert Védrine, a former foreign minister.

François Hollande, the Socialist boss, is furious. He accused Mr Sarkozy of trying to destabilise the party. He said it was “intolerable” that Socialists had joined the government, and gave warning that serving on the constitutional commission would lead to suspension from the party's national bureau. As a pre-emptive move, Mr Lang last week quit the bureau (though he remains a Socialist deputy), telling Mr Hollande in an angry letter that “I no longer recognise myself in your management techniques.” The party, Mr Lang told French radio, was in a “very serious crisis”.

Can the Socialists recover? Mr Hollande has promised to stand down as leader at next year's party congress. The chances are that Ms Royal, undeterred by her electoral defeat, will then try to take over. This will bring its own peculiar dynamic. She is also the mother of Mr Hollande's four children, and recently announced that the couple had separated and that she had asked him to move out “to pursue his love life separately”.

The trouble is that few Socialist voices are left to press for the reinvention of the party as a centre-left movement like others in Europe. Indeed, Laurent Fabius, one of the rare Socialist elephants not (yet) co-opted by Mr Sarkozy, has argued the opposite: that the party should return to its Socialist roots. Ms Royal's own position is deeply unclear. This week she held a post-mortem on the presidential campaign, conceding the word “defeat” for the first time, and arguing that the failure had been of communication and organisation, not substance. Yet she also said that she never believed in a big rise in the minimum

wage, nor in widening the application of the 35-hour working week, though both were centrepieces of her campaign.

For the present, her lack of clarity suits the Sarkozy camp nicely. They would be happy to see her not only take over the party but also contest the 2012 presidential election, believing that she lacks the stature to challenge Mr Sarkozy. “We will do everything we can to help her,” comments one adviser mischievously.

There are, however, a few elements of uncertainty. The first concerns the ambitions of Bertrand Delanoë, the Socialist mayor of Paris, whose term expires next March. He has deliberately steered clear of national politicking to concentrate on Paris. This week he launched a high-profile rent-a-bike scheme. If he stands again, and is re-elected, the mayoralty could give him a platform for a presidential challenge—as it did for Mr Chirac in 1995.

Another question-mark hangs over young rising stars of the party, who have struggled to emerge. Among them, Manuel Valls, a Socialist deputy and telegenic former speechwriter for Lionel Jospin, an ex-prime minister, has been outspoken. This week he argued for an “intellectual big bang” in the party, and even suggested dropping the label “Socialist”. He also confirmed that he had turned down a job in government offered by Mr Sarkozy—a sure sign that the president regards him with extreme wariness.

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Treasure-hunting in Spain

Golden hoards

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From The Economist print edition

When you find treasure, all and sundry promptly start to claim it

IT MAY seem a glamorous life, but the lot of a treasure-hunter is not all adventure, excitement and the dazzle of gold and jewels. Take Odyssey Marine Exploration. One of its vessels was forced into port and searched by Spanish police last week, before being released this week.

Odyssey's business is based on the notion that the ocean floor is littered with valuable old stuff that, thanks to new deep-sea technology, can now be recovered. Some evidence came in May, when it found 500,000 colonial-era silver coins and a few gold ones at a secret site that it calls Black Swan. Yet this has brought only legal headaches. Who owns the coins it whisked off to Florida after unloading the treasure in Gibraltar earlier this year? A Spanish magistrate seems to think that Odyssey may have illegally scooped them off the seabed in Spanish waters.

Odyssey denies this, but it faces claims from the Spanish government in an American court. Spain thinks the treasure may belong to it. Other “claim-jumpers”, as Odyssey's lawyers call them, may wait in the wings. Yet the firm is upbeat. Its find is good news for investors, including such funds as Fortress and GLG, after two years of losses. Even if a legitimate claimant appears, it hopes to keep 90% of the proceeds.

Step forward the lawyers for Spain. James Goold at Covington and Burling, a firm that successfully defended Spain's ownership of two frigates, *Juno* and *La Galga*, lying off Virginia, believes the mysterious Black Swan coins may be Spanish. “The owners of sunken ships have rights,” he says. “Spain has not abandoned its sunken property and it does not permit unauthorised salvage.” If Odyssey is forced to hand over a large part of its Black Swan haul a cloud will fall over all commercial treasure-hunting. Who, after all, wants to invest large amounts of money looking for something only to see a government then claim full ownership?

A similar recent case occurred in Colombia, where the supreme court came up with a confusing decision about the ownership of the wreck of the Spanish-flagged *San José*. It awarded it, at least in part, to the Colombian government. Nationalism, politics, greed and a concern for the archaeological integrity of shipwrecks can all come into play in a big find.

What should be done? If private treasure-hunters do not seek out wrecks, nobody else will. Governments rarely take any initiative. One alternative may be to adopt a British model. The British government has just signed a deal with Odyssey to recover treasure, and then to split the proceeds, from *HMS Sussex,* which went down off Gibraltar in 1693, carrying a million pounds in coins. The deal also provides archaeological guarantees.

Defenders of this arrangement believe that it deals with most concerns about treasure-hunting. It settles ownership, rewards risk and initiative and helps the archaeologists. It might, indeed, be just the sort of deal that could benefit both Spain and Odyssey. Until treasure-hunters and governments start working together, every find is liable to be followed by complex legal wrangling, in which the only certain winners will be the lawyers.

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France and work

Sweating in Sarkoland

Jul 19th 2007 | PARIS
From The Economist print edition

Coping with the irksome notion of hard work

Get article background

A DISTURBING thought is gently dawning on the French. What if President Nicolas Sarkozy really means it about working hard in the new France? How, but how, in the land of the 35-hour week, are the French to cope?

Worrying signs that he may be serious abound. At a time when the French usually head off on their long summer break, the president has ordered deputies to attend a special session of parliament until August 3rd. The “hyper-president” is setting the pace with his own whirlwind schedule. At his White House-style briefing last week, his spokesman, David Martinon, had already lost his voice.

Christine Lagarde, the finance minister, has unveiled a new “law in favour of work”. “France is a country that thinks,” she declared. “But enough thinking now! It's time to roll up our sleeves.” Mr Sarkozy campaigned on the slogan “working more to earn more”, lauding “the France that gets up early”. Ms Lagarde intends to put this into action. It was time, she said, to break with a French “tradition of contempt” for work “that reaches back to the *ancien régime*.”

The culture shock promises to be brutal. France has one of the rich world's shortest working weeks, and more public holidays than almost anywhere. “Bonjour Paresse” (“Hello Laziness”), a guide to getting away with doing nothing in the office, was a bestseller three years ago. The genre has a long ancestry. In 1880 Paul Lafargue published “Le Droit à la Paresse” (“The Right to Laziness”), recommending that men should work no more than three hours a day, and spend the rest of the time “lazing about and feasting”.

Reconciling the French with hard work could prove ambitious. The low Latin root of the French word *travail* is *tripalium*, an instrument sometimes used for torture. To help readers prepare for the ordeal, *ELLE* magazine ran an article on the trials of being a “layabout girl in a Sarkozy world”. Emerging bleary-eyed in the centre of Paris at 9.44am, the author discovers an empty city. Is it the holidays? Is everybody shopping? “Perhaps people are already at work,” suggests a friend, incredulous.

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Minorities in Germany

The integration dilemma

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Both government and immigrants must work harder on integration

WHEN Angela Merkel convened an “integration summit” a year ago minorities applauded. The new chancellor was rallying government, business and society to bring immigrants into the mainstream. But when Ms Merkel held a second summit on July 12th the mood had changed. Four Turkish migrant groups boycotted it to show, as Memet Kilic of the German Foreigners' Council puts it, that “migrants are not masochists”.

The boycotters are incensed by changes in the immigration law that will make it harder for foreigners, especially Turks, to come to Germany. Migrants from poor countries joining spouses in Germany must now pass a language test before arrival. Foreign spouses must also be at least 18 (to discourage arranged marriages and child brides). To obtain citizenship young foreigners will now need a job, a place in school or a good excuse for having neither. This tightens standards that were loosened in the late 1990s. Turks, the largest migrant group after ethnic Germans from other countries, complain that the measures are aimed at them. “This means: We don't want you,” says Özcan Mutlu, a Green member of Berlin's legislature who represents the Kreuzberg district, home to many Turks.

Rejection starts young. Children are only ten (or 12 in Berlin) when their high school is chosen. For nearly half of foreign students it is the *Hauptschule*, which prepares them for low-skilled jobs. Only 14% go to a pre-university *Gymnasium*, compared with a national average of a third. The drop-out rate for children of immigrant backgrounds is three times the national average, says Mr Mutlu.

The differences persist in the job market, even between migrants and German-born citizens with similar education. Unemployment for foreign-born residents with little schooling was 20.3% in 2003-04, compared with 15.6% for people born in Germany, according to the OECD, a Paris-based think-tank. For those with higher education the gap widens: 12.5% for foreign-born residents and just 4.4% for native Germans.

Young Turks can make matters worse. Many native Germans complain that migrants' children do not learn German and are prone to criminality. Only a third of Turks have become German citizens, in part because dual citizenship is not allowed. Many young Turks are more religious than their parents, fuelling fears of a spread of fundamentalism. A plan to build a big mosque in Cologne has sparked protests by right-wing extremists and criticism from leading Catholics and Jews. There are grumbles that Muslim children dodge sports and biology classes for religious reasons, though Mr Mutlu claims that only 68 of Berlin's 70,000 immigrant students did this. Some 2.5m Turks have gone home since the early 1960s. Most new legal immigration consists of family reunions.

The idea that Turks, who began arriving nearly 50 years ago, are an indigestible minority is belied by countless success stories. But what is astonishing, says Kay Hailbronner, of the University of Constance, is that, after so much time, integration “partly didn't happen.”

The government's response has been to issue a sort of German dress code. Immigrants “are welcome, but you also have to get to know our culture,” says Wolfgang Schäuble, the interior minister, who rejects the growth of “parallel societies”. The first integration summit led to 400 proposals, which were launched at the second with a promise of €750m ($1 billion) a year to pay for them. They include ideas such as expanding language and culture training and steps to raise employment. But the appeal of such measures is undone by the changes to the immigration law which, unlike the integration plan, were adopted without consulting immigrants' representatives. The government is not wrong to want immigrants to be good Germans. But Germany also needs to be a better host.

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Rebranding Berlin

In search of the 1920s

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A capital that is short of prosperous people

TO ANYONE driving through Berlin's empty streets, this capital of 3.4m seems a backwater. Klaus Wowereit, its Social Democratic mayor, wants to improve Berlin's “poor but sexy” image. On the back of last year's World Cup, he would like to promote it as a glamorous metropolis reminiscent of its 1920s heyday. Armed with a two-year €10m ($14m) budget from Berlin's Senate, Mr Wowereit has duly launched his “City of Change” campaign.

Selling Berlin as a world city is hard. It has lots of renovated museums, theatres and clubs, plus 400 contemporary-art galleries. Artists, film-makers and some politicians have revived its big-city feel. But whereas London and Paris boast plenty of rich people, Berlin does not. One in two live on a pension or unemployment benefit; even those with jobs earn an average of only €32,600 a year. Well-heeled Germans pay the odd visit, but prefer to live in more opulent places like Munich or Hamburg. Berlin is also saddled with €61 billion of debt.

As the largest industrial city in Europe in the early 1900s, Berlin bustled with bankers, entrepreneurs, scientists and inventors. It played host to the invention of nylon, nuclear fission and talking films. Reduced to rubble in 1945, the city was rebuilt and then rebuilt again after unification in 1990. But most industries have long gone. The city lost two-thirds of its remaining manufacturing jobs when cold-war subsidies that propped up both sides ended. The economy is now largely service-based.

Like the Big Apple campaign that helped to revive bankrupt New York in the 1970s, Mr Wowereit's initiative, co-ordinated by Berlin Partner, the city's business-development and marketing office, will be aimed at business, investors and tourists. The hope is to capitalise on small signs of renewed confidence shown by economic growth of 1.9% in 2006 (although that is well below the overall German figure of 2.8%).

Cheap and easy to get around, Berlin offers rich pickings for foreigners who snap up residential and commercial property. It had 7m visitors last year, making it third in Europe after London and Paris. A delayed €2 billion project to expand Schönefeld airport for wide-bodied jets will be ready by 2011. At least Berlin will have a world-class airport.

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Charlemagne

Linguistic follies

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Peter Schrank

The economic consequences of the rise of English

IN RECENT years Brussels has been a fine place to observe the irresistible rise of English as Europe's lingua franca. For native speakers of English who are lazy about learning languages (yes, they exist), Brussels has become an embarrassingly easy place to work or visit. English is increasingly audible and visible in this scruffily charming Belgian city, and frankly rampant in the concrete-and-glass European quarter. Now, however, signs of a backlash are building. This is not based on sentiment, but on chewy points of economic efficiency and political fairness. And in a neat coincidence, Brussels is again a good place to watch the backlash develop.

Start in the European district, where to the sound of much grinding of French and German teeth, the expansion of the European Union has left English not just edging ahead of the two other working languages, but in a position of utter dominance. The union now boasts 27 members and 23 official languages, but the result has been the opposite of a new tower of Babel. Only grand meetings boast interpreters. At lower levels, it turns out, when you put officials from Berlin, Bratislava, Bucharest and Budapest in the same room, English is by far the easiest option.

Is this good for Europe? It feels efficient, but being a native English-speaker also seems to many to confer an unfair advantage. It is far easier to argue a point in your mother tongue. It is also hard work for even the best non-native speakers to understand other non-native versions of English, whereas it is no great strain for the British or Irish to decipher the various accents.

François Grin, a Swiss economist, argues that Britain enjoys hidden transfers from its neighbours worth billions of euros a year, thanks to the English language. He offers several reasons, starting with spending in Britain on language teaching in schools, which is proportionately lower than in France or Switzerland, say. To add insult to injury, Britain profits from teaching English to foreigners. “Elevating one language to a position of dominance is tantamount to giving a huge handout to the country or countries that use it as a native language,” he insists.

What about the Europe outside the bubble of EU politics? Surely the rise of English as a universal second language is good for business? Perhaps, but even here a backlash is starting, led by linguists with close ties to European institutions and governments. They argue that the rush to learn English can sometimes hurt business by making it harder to find any staff who are willing to master less glamorous European languages.

English is all very well for globe-spanning deals, suggests Hugo Baetens Beardsmore, a Belgian academic

and adviser on language policy to the European Commission. But across much of the continent, firms do the bulk of their business with their neighbours. Dutch firms need delivery drivers who can speak German to customers, and vice versa. Belgium itself is a country divided between people who speak Dutch (Flemish) and French. A local plumber needs both to find the cheapest suppliers, or to land jobs in nearby France and the Netherlands.

“English, in effect, blocks the learning of other languages,” claims Mr Baetens Beardsmore. Just as the global rise of English makes life easy for idle Britons or Americans, it breeds complacency among those with English as their second language. “People say, ‘well, I speak English and I have no need to learn another language.'” He cites research by the European Commission suggesting that this risk can be avoided if school pupils are taught English as a third tongue after something else.

A huge government-financed survey of Brussels businesses reveals a dire shortage of candidates who can speak the right local languages (40% of firms have reported losing contracts because of a lack of languages). One result is a very odd labour market. By day, Brussels is more or less bilingual, hosting a third of a million Dutch- and French-speaking commuters from the prim suburbs, who fill the lion's share of well-paid graduate jobs. Once night falls, Dutch-speakers are in a small minority.

Not getting on their bikes

Moreover, among permanent Brussels residents, unemployment hovers around 20%. Just a short journey away, in Dutch-speaking suburbs such as Zaventem (home to the airport), unemployment is 4-5% and employers complain of worsening labour shortages. Even within Brussels, thousands of job vacancies go unfilled every month because nine in ten jobseekers cannot read and write in French and Dutch, prompting employers to bin their applications.

Olivier Willocx of the Brussels Chamber of Commerce and Industry argues that too many Brussels natives are “allergic to learning Dutch”. The rise of Dutch is painful for some. French was once the language of the Belgian and Brussels elite, but the post-war period has seen Dutch-speaking Flanders (as the north of Belgium is known) boom. “Like it or not, the real economic power in Brussels is Flemish,” contends Mr Willocx.

Hardline nationalist politicians in Flanders must take some blame because they have done a lot to make French-speakers feel unwelcome. The head of the Brussels employment service, Eddy Courthéoux, also questions the sheer number of job advertisements that demand both Dutch and French, saying that for some “it is just a way of avoiding hiring a foreigner”: code for Moroccan, Turkish or African immigrants.

Perhaps Brussels should accept its fate as an international city, and switch to English, like some European Singapore (although with waffles, *frites* and dirty streets)? For all his problems finding jobs for monolingual locals, Mr Courthéoux looks appalled. “Living in a bilingual city is not a misfortune, it makes life rich and interesting,” he argues. Some would call this pure sentiment, others might suggest that it reflects hard-nosed economics. But Brussels is actually a good place in which to hear the point and simply nod your head.

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Correction: Zenica

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The map used with our stories on Kosovo and Bosnia last week misplaced Zenica in southern Serbia. It is in fact in Bosnia, north of Sarajevo.

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Anglo-Russian relations

The big freeze

Jul 19th 2007 | MOSCOW
From The Economist print edition

Peter Schrank

Beneath the surface spat between Britain and Russia lies a worrying chasm of mutual incomprehension

“CHRIST, I miss the cold war,” sighed the head of British intelligence in the latest James Bond film. This week, as Britain expelled four Russian diplomats from London and tightened visa restrictions, M's yearning seemed to have been amply fulfilled. “Provocation!” cried Russia's media in response to the British move. “Russophobia,” snarled Russia's ministry of foreign affairs.

On July 19th Russia retaliated by expelling four diplomats from Moscow. It also announced that its officials would no longer travel to Britain, and said it would stop issuing visas to British officials. And the Russian government said that it could no longer co-operate with Britain in the war on terror.

The plot, the language and the characters appear to come straight out of the cold-war period. The victim was Alexander Litvinenko, an ex-KGB man who defected to Britain and was poisoned last year with polonium-210. The villain is Andrei Lugovoi, a fellow KGB veteran accused by Britain's Crown Prosecution Service (CPS) of the crime. In the background lurks Boris Berezovsky, an oligarch who fell out with Vladimir Putin, Russia's president, and received asylum in Britain. This week the British police said he had been the target of a foiled assassination attempt.

But the parallels with the cold war are misleading. Russia no longer has an ideology to export. Communism is dead and Mr Putin has no intention of reviving it. Moscow glistens with the bright lights of consumerism and Russian companies continue to queue up to list their shares on the London Stock Exchange.

Instead, the Litvinenko case has revealed a gaping cultural and political divide between the two countries. The tough line taken by Gordon Brown, Britain's new prime minister, is a long way removed from Tony Blair's early attempts to win Mr Putin's friendship.

The British government's view is clear. One of its citizens has been assassinated and the use of radioactive material made the crime a threat to national security. Yet the Russians have refused to hand over Mr Lugovoi to stand trial; and they have not offered a reasonable alternative such as an open international trial in Russia. David Miliband, Britain's new foreign secretary, told MPs this week that “the Russian government has failed to register either how seriously we treat this case or the seriousness of the issues involved.”

The Kremlin's official line is that its constitution prevents it from handing over its citizens to other countries. Yet, at home, it has made it clear that the constitutional argument is no more than an excuse. It has portrayed the British charges as a politically motivated fabrication aimed at undermining Russia's reputation.

Immediately after the CPS announced its intention to prosecute Mr Lugovoi, he was flaunted on Russian state-controlled television, alleging that Litvinenko was a British spy and was killed by MI6. Since Britain had refused to extradite Mr Berezovsky—as Russia demands, not least for his calls to overthrow Mr Putin—why should Russia hand over Mr Lugovoi? “The arguments used by the Kremlin are extra-judicial and they reveal an extra-judicial way of thinking,” says Lilia Shevtsova of the Carnegie Moscow Centre, a think-tank.

At the core of the row lies the Kremlin's deep-rooted conviction that the rest of the world works in the same way as Russia, which is merely more honest and less artful in concealing its motives. Russia has never accepted that Britain's refusal to extradite Mr Berezovsky was a legal rather than a political decision. As one Russian commentator has argued, in Mr Putin's view of the world—shaped by his KGB background—the independence of the courts, freedom of speech and the supremacy of individual rights or lives over state interests are a cover dreamt up by the West to disguise its real interests.

But the incomprehension is mutual. “The West does not understand how a country which aspires to be a member of international clubs such as the G8 can act against the other members of these clubs,” says Ms Shevtsova. Russia's embrace of capitalism did not mean the adoption of other Western values. Russia may want deeper integration with the West—but only on its own terms.

On one level, Mr Putin must be relieved. The world is regaining its familiar contours: there are enemies across the border and conspiracies to thwart Russia's influence. But there is one big difference between Mr Putin and his Soviet predecessors. The Soviet elite did not own property in London, nor did they aspire to send their children to British public schools. Although Britain may have limited political clout over Mr Putin, it provides an attractive lifestyle for hundreds of rich Russians, many of whom are linked with the Russian government.

What this means is that Russia may be more sensitive to Britain's other measure—tightening visa control for state officials—than to the expulsion of its diplomats. This may explain why Moscow chose to escalate the tit-for-tat by suspending the issuance of visas for British officials. The Kremlin will also be worried that the European Union and America have sided with Britain in its dispute with Russia.

For all his hard talk, Mr Putin finds himself in a difficult position. Whether he knew about the plot to kill Litvinenko or not, the Kremlin's failure to co-operate with Britain's investigation, and the media support it has provided for Mr Lugovoi, have involved him in the case. As one ex-KGB general pointed out, the Litvinenko affair also gives any successor to Mr Putin powerful leverage over him. One of the first Russians to entertain the thought of taking asylum in England in case things got tough in Russia was Ivan the Terrible. Mr Putin and his elite may have to think of a different exit strategy.

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London mayoral candidates

Boris enters the fray

Jul 19th 2007
From The Economist print edition

The capital's councils have gone blue. Is London ready for a Tory mayor?

AP

Boris has news for you

Get article background

NEW YORK was said to be the inspiration behind London's elected mayor, a job that Labour created in 1999 as part of its grand devolutionary programme. But although the posts may sound similar, their holders have little in common. Michael Bloomberg is a financial-data billionaire with a Harvard MBA, who runs the Big Apple like a business. “Red Ken” Livingstone, his opposite number in London, is friendly with Hugo Chávez, Venezuela's socialist president, and is planning a festival to mark the 50th anniversary of the Cuban revolution.

London's knack of attracting eccentric candidates—probably because the job is much less powerful than New York's—continues. On July 16th Boris Johnson, a scarecrow-haired old-Etonian MP, confirmed his desire to run as the Conservative candidate in London's mayoral election in May. If, as expected, he wins the party's primary ballot in September, he may give David Cameron's Tories their best chance yet of toppling Mr Livingstone, who became London's first elected mayor in 2000 and is seeking a third term.

Both men are mavericks who are blessed with the gift of the gaffe. Mr Johnson is famous for upsetting people everywhere from Liverpool (which has a “tribal grievance about the rest of society”) to Papua New Guinea (which stages “orgies of cannibalism and chief-killing”). For his part, Red Ken called George Bush “the greatest threat to life on this planet”.

Until now, Mr Livingstone's victories have been distinctly one-sided, not least because the Tory party has long struggled to find a Ken-beater. Jeffrey Archer, their first-ever mayoral candidate, pulled out of the 2000 race when accused of perjury and was later imprisoned. His replacement, Steven Norris, a little-known former minister, ran again in 2004 and was considering a third bid after Tory efforts to woo everyone from John Major, a former prime minister, to Lord Stevens, a one-time head of London's police, came to naught.

With the right candidate, London ought to be ripe for the Conservatives' taking. Last year's elections gave them a majority on 14 London councils, twice as many as Labour. Since 2004 they have held the most seats in the city-wide London Assembly. They may increase their lead in May by taking back votes from UKIP, a right-wing fringe party that did well last time.

Mr Johnson's clownishness is not to every senior Tory's taste but his high profile—especially with young voters—makes his antics easier to swallow. He is by far the best-known Tory MP bar current and former

party leaders, says Peter Kellner of YouGov, a pollster. And his *faux* buffoonery makes traditional right-wing positions seem more palatable. “I may be in trouble for saying this,” he begins self-deprecatingly, but “supposing Tower Hamlets or parts of Bradford were to become governed by [Muslim] religious zealots?”

Ahead looms a no-holds-barred contest. But the love-loathe relationship that Londoners have with Mr Livingstone means that the pool of swing voters is smaller than usual, according to Julia Clark of Ipsos MORI, another polling firm. She says the biggest election issue is Mr Livingstone's congestion charge for motorists, about which most voters formed a view years ago. Londoners will enjoy watching the candidates slug it out, but many may have made up their minds already.

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Punishing Muslim protesters

Crackdown

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Can one really solicit murder with a banner?

FREEDOM of speech is so highly valued in Britain that those who protest against it are locked up. That was the contradictory message sent out on July 18th when three men were each jailed for six years and one man for four years for their role in a heated protest outside the Danish embassy in London last year.

The men, all Muslims, had taken part in a demonstration of about 300 people following the publication in a Danish newspaper of cartoons making fun of the Prophet and of Muslims generally. It was one of dozens of rallies around the world which called for the pictures to be banned after Denmark's government refused to censor its press and other newspapers reprinted the offending artwork in solidarity.

At the demonstration outside the embassy in London the four men, who were convicted on charges of soliciting murder and stirring up racial hatred, had led bloodthirsty chants calling for the killing of British soldiers in Iraq and for a new wave of terrorist attacks in Britain. “We want to see their blood running in the streets of Baghdad,” Mizanur Rahman told the crowd. Abdul Saleem said: “7/7 on its way” and “Europe, you will pay with your blood.”

The men allegedly had links to Al Muhajiroun, a militant Islamic group which is now banned. One was found to possess leaflets including more inflammatory material. Yet their convictions were based on their role in the demonstration. One man had held the megaphone for just a few minutes.

These “absolutely excessive” sentences are being used to make an example of offenders, says Jo Glanville of *Index on Censorship*, a campaigning magazine. Such harsh treatment is likely to deepen the suspicion among some Muslims that their faith is under attack. As the four men were led away to begin their sentences, a protest group had formed outside the courthouse. One banner read: “Muslims Under Siege”.

The government is striving to stamp out support for terrorism among disaffected young Muslims. The severity of this sentence may hand ammunition to the extremists who persuade young men that peaceful protest is not the answer.

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London Underground

Down the tube

Jul 19th 2007
From The Economist print edition

Metronet's bankruptcy highlights the flaws in the Tube contracts

Get article background

IT WAS like watching a train crash in slow motion. Metronet, one of the two firms charged with upgrading London's rickety old underground network under a multi-billion-pound public-private partnership (PPP) deal, had been in trouble for months. A dispute with Transport for London (TfL), the city's transport authority, over who was to blame for £1 billion of projected cost overruns on three of the lines it was renovating, went to arbitration last month. The decision was expected to take a year; in the meantime, with its shareholders and banks refusing to release any more cash, Metronet had asked for an extra £551m of taxpayers' money. On July 16th Chris Bolt, the PPP arbiter—the referee for such disputes—awarded it just £121m. Two days later, it admitted it was bankrupt.

The post-mortems began immediately. Ken Livingstone, London's mayor (who had opposed the deals from the start) gave warning that the bankruptcy could slow down the entire renewal programme, although TfL officials were at pains to play down their boss's comments.

Critics of Metronet blame the company's cosy structure for its inefficiency, pointing out that its five shareholders (WS Atkins, Bombardier and Balfour Beatty, all engineering firms, as well as Thames Water and EDF Energy) split the work among themselves rather than using outside contractors. Others blame instability at the top. Metronet has had three chief executives since the contracts were signed. The company itself—which had argued that all of the extra costs should be borne by TfL—says that it was too willing to compromise when asked to do extra work.

Metronet's collapse has underlined bigger problems with the PPP itself. Fans of the idea point out that the shareholders have been punished for their firm's incompetence by losing their £350m investment. But the bulk of the company was financed not by equity but by £2.6 billion of debt. Such was the perceived riskiness of the PPP that Metronet's bankers insisted that TfL guarantee 95% of their loans, leaving open the possibility of a taxpayer bail-out.

Bob Kiley, an ex-boss of TfL and opponent of the PPP, had worried when the contracts were being negotiated that not enough of the investors' money was at stake to ensure that Metronet would be run well. His position has now been vindicated. “Nobody in government believed you would get an overrun this big,” says Tony Travers, of the London School of Economics. He points drily to a claim by a Downing Street official in 2002 that the “massive financial penalties” would dissuade shareholders from walking away.

For now, at least, Metronet still lives: its planned works will continue while the administrators dispose of the business. TfL has indicated that it wants to tinker with the contracts before re-letting them, probably to take more control. In the meantime, it has awarded Metronet “hundreds of millions of pounds” to carry on its work. It hopes to recover that money from the Treasury, but whichever part of government ends up nominally responsible, it is taxpayers who will have to foot the bill.

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Defence

Carriers without Harriers

Jul 19th 2007
From The Economist print edition

The battered Royal Navy is pinning all on a new generation of carriers

BRITAIN'S aircraft carriers look puny next to America's *Nimitz*-class behemoths. But when *HMS Illustrious* began a joint carrier exercise off America's east coast this week, something else stood out: its aircraft, or rather the lack of them. Britain's Harrier jump-jets are so busy in Afghanistan or training that its carriers sail without planes about 80% of the time. The navy keeps its crews in shape by having allied aircraft fly off the ships. This week the American marines obliged with 14 jets.

Despite the delivery of new destroyers and amphibious ships, the Royal Navy is in the doldrums. Its fleet is shrinking, ships often sail without their full crew or equipment, and the navy has lost control of its Harriers to the air force. In April 15 sailors were humiliatingly abducted by Iran.

But the navy's luck may be turning. Gordon Brown, the prime minister, has dropped hints that his government will soon order two new carriers when negotiations over the defence budget are concluded. The total cost will be around £3.9 billion. They will be much bigger than the current ships and will carry Joint Strike Fighters (JSFs). Like the Harriers, these planes will be configured for short take-off and vertical landing, but will also be stealthy and supersonic.

Successive governments have tried to kill carriers since the 1960s. Today's ships, originally called “through-deck cruisers”, would have been eliminated had Argentina not invaded the Falkland Islands in 1982. British forces retook the islands with just 20 Sea Harriers for air defence. But even if approved, the new carriers face an uncertain future. The jump-jet version of the JSF that Britain is buying will not start test flights until next year, and the cost of the American-led programme is rising.

The Royal Air Force and the army will exploit any chance to delay or cancel the carriers. But some in the navy might also want to re-open the debate since the jump-jet plan is, in fact, a compromise. The navy at first wanted a more ambitious ship, with a flat deck like American and French carriers rather than a “ski-jump”, that could take planes flying farther and with heavier weapons. But such ships would cost even more, as they require a steam catapult, arrester wires and a bigger crew.

For now, the navy will take whatever it can get. It sees the carriers as the best means of asserting its position as a leading maritime force, and has sacrificed much of the fleet to ensure they will be built. It also wants to prove a point: that the navy, not the air force, offers the best means of delivering a punch around the world.

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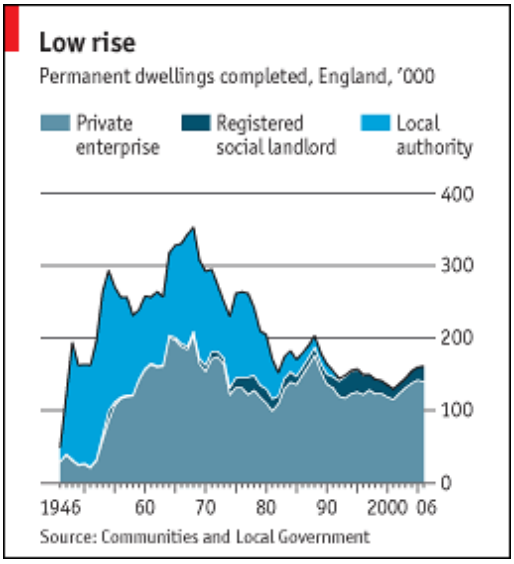
Housing supply

The English paradox

Jul 19th 2007
From The Economist print edition

Most Britons want their own homes, and green spaces too

Get article background



AS BRITISH politicians rush to occupy the centre ground, few issues remain as salient as housing. Gordon Brown, the prime minister, has lost no time in making clear that homebuilding is a top priority. A policy paper due on July 23rd from Yvette Cooper, the housing minister, will outline a plan to raise the number of new homes being built in England to 240,000 a year, up from an existing target of 200,000.

The objective may be more ambitious, but Labour's record over the past ten years has been far from impressive. Completions of new dwellings (a slightly different definition from that used by the government for its targets) in England fell to 130,000 in 2001, its lowest level since just after the second world war. Although housebuilding recovered somewhat to 161,000 last year, that is still far short of demand. An additional 223,000 households are expected to be formed each year over the next two decades as families fragment, people choose to dwell alone and old folk live longer.

Mr Brown's drive to boost construction reflects widespread anxiety that as Britain's house-price boom continues into its second decade, more and more people are unable to get on to the housing ladder. But sluggish building is only one reason for high prices, which also reflect the fact that credit has been so cheap.

The puzzle, though, is why the supply of houses has not increased to meet demand, especially given the price houses now command. Part of the answer lies in the government's steady withdrawal from the housing market. When construction in England peaked at 353,000 homes in 1968, local councils were building about 40% of the total (see chart). Now they put up less than 1% of new homes. But that does not explain why private builders have not stepped up to take their place.

Kate Barker, a member of the Bank of England's monetary-policy committee, examined this question in 2004 and found that the housebuilding industry was fragmented and inefficient. But she also pointed a finger at the planning system, which was not providing enough land for houses. John Stewart of the Home Builders Federation, a lobby for the industry, reckons that the area of land made available each year for new homebuilding has been steadily dropping since 1994 and fell by more than 7% between 1997 and 2003.

For that we can blame a peculiarly English paradox. Most people in England want to own their own homes (preferably detached ones with gardens) and think that more of them ought to be built—so long as they are far away. A survey by YouGov, a pollster, last year found that 65% of people think more homes are needed, but 43% think their council should discourage or block housing in their area.

The antipathy to new development appears stronger in Britain than in North America. Saint Consulting, an American outfit specialising in land use, found that almost a third of Britons oppose the development of new homes in their communities, compared with 11% of Canadians and just 6% of Americans. Kate Fox, a social anthropologist and author of “Watching the English”, thinks the paradox reflects one of the defining characteristics of Englishness: a “phobia about crowding and fixation with privacy” that arises when lots of people are crammed together in a small island.

Nimbyist tendencies are not just mean-spirited, though. Councils that allow more homes often incur

additional expenses in providing services. But funding from central government, which accounts for the bulk of local-government revenue, may take years to catch up.

More money is also needed upfront. One cornerstone of official housing policy is a plan to build about 120,000 homes in the Thames Gateway to the east of London. But development is being held up because the government has not set aside enough money for transport infrastructure. Nor has it planned properly for the roads and railways, which can take ten years or more to build, according to a critical report from the National Audit Office.

Providing more money for essential infrastructure and reforming local-government finance may ease some constraints but is unlikely to be enough to overcome local opposition everywhere. So the government may end up using new planning powers to foist development on some unwilling communities.

Once that would have been a clear vote-loser thanks to the strength of nimbyism. But Labour thinks the terrain is shifting and that its city-dwelling supporters believe more houses are needed. This poses a dilemma for the Conservatives, many of whose seats are in the south where most new building is needed. Opposing housebuilding looks reactionary. But supporting it may put them at odds with their nimbyish constituents.

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Apprenticeships

How the other half learn

Jul 20th 2007 | AYLESBURY, BUCKINGHAMSHIRE
From The Economist print edition

Britain tries again to remedy low skills in the workforce

Get article background

"IF I spent four years at university, I'd be old by the time I got out," says Grant Cutler. "I just heard about the debt, and not even a great job at the end of it," adds Joel Gosling. The two young men are sitting in an industrial building fitted out with classrooms and engineering equipment owned by ATG, a training company, on the outskirts of Aylesbury, a mid-sized market town. They have just finished six months' training for their apprenticeships, one in computer systems, the other in electrical installation. This autumn they will start jobs with local employers, combining this with one day's training a week at ATG.

Far more young Britons should be taking this route into work, according to a report published on July 20th by the House of Lords Select Committee on Economic Affairs—500,000 a year compared with half that number now. Criticising ministers for their "serious and longstanding failure" to improve vocational education and training, the committee calls not just for more apprenticeships but better ones. Although the best give youngsters a good start, others, particularly in the service sector, are not up to scratch. Controversially, the report suggests that all government money for apprenticeships should go via employers as an incentive to firms to offer more of them.

Alongside a flow of poorly qualified youngsters into the workforce, Britain also has far too many adults who lack skills. On July 18th the government published its plans to do something about this. Responding to a review last year by Lord Leitch, ministers set a target for 90% of adults to have at least an intermediate-level qualification (five good GCSEs or the vocational equivalent) by 2020. They also promised that the taxpayer would pay for training for anyone under 25 who hadn't reached this standard.

The reason for this buzz of activity is a fear that Britain's low-skilled workers will fare worse and worse as globalisation intensifies low-wage competition. Too many poorly skilled workers also make for lacklustre productivity. There is also great concern that so many young people are going nowhere. At any given time around 10% of 16- and 17-year-olds are not working, training or studying, and 1% spend a year or more in this unproductive state.

Lord Layard, a member of the Lords committee, thinks that so many teenagers end up adrift because there is no clear, attractive route for non-academic youngsters to take. Countries where apprenticeship is common are also those where the transition from school to work is easiest, he says. So he welcomes the government's commitment to offer an apprenticeship to any young person who wants one, and can read and do sums, which was also one of the committee's recommendations. But he is cautious. "The same commitment was made in 2001, to come into effect in 2004," he points out, "but it vanished without trace."

Back in Aylesbury, Ray Ball, ATG's chief executive, emphasises the importance of hands-on learning for motivation. Even those young people who hated maths in school find themselves wanting to know the formulae underlying what they are doing, he says, pointing to the lathe on which the apprentices learn how to cut metal. "When they start to ask how to calculate the speed of the lathe and the depth of the cut, we pull them straight into a classroom so we don't miss the chance."

Improving apprenticeships is a fine idea. But for some young people, it would be too late. Would-be apprentices at ATG are assessed for literacy and numeracy, explains Mr Ball. They must read a café menu and supply missing words in short sentences to test their understanding, and do simple sums, starting with "5+2=?" and progressing to "John buys a car for £2,500. He uses 50% of the money in his bank account to buy the car. How much was in his account to start with?" A quarter fail.

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Interest rates

Great expectations

Jul 19th 2007
From The Economist print edition

The monetary squeeze will be less intense than the markets fear

Get article background

IT HAS been a rude awakening for borrowers. Four years ago they were luxuriating in the lowest interest rates for almost half a century. A year ago rates were still unusually low: the Bank of England's base rate was 4.5%. But since then the bank has yanked it up to 5.75% and now the City is betting that it will reach 6.0% this autumn and, quite possibly, 6.25% by the end of the year. The lure of tighter money pushed sterling up to around $2.05 this week, a new 26-year high (see chart).

What lay behind these market moves was a setback on inflation. Since consumer-price inflation peaked earlier this year, at 3.1% in the 12 months to March, it has fallen quite sharply—to 2.8% in April and 2.5% in May. However, that downward progress towards the government's target of 2.0% slowed in June, when inflation fell to 2.4% rather than the 2.3% expected by the markets.

Indeed, the more the City delved into the numbers the less they liked the look of them. A turnaround in gas and electricity prices is continuing to pull down headline inflation. However, a core measure, which leaves out more volatile elements like energy and food, rose from 1.9% in May to 2.0% in June, its highest for ten years.

Other gauges of inflation also brought an unpalatable message. According to the longer established and broader index of retail prices, which includes owner-occupier housing costs, inflation actually rose from 4.3% in May to 4.4% in June. That reflected the impact of higher mortgage-interest payments; stripping these out, retail-price inflation remained unchanged at 3.3%.

It is easy to see why City dealers are putting their money on higher rates. On two occasions in the past year the bank caught them napping when it raised interest rates unexpectedly. But traders may be over-reacting this time. Labour-market figures released this week showed that earnings growth remains subdued.

Furthermore there are divided counsels on the bank's nine-strong monetary-policy committee. Minutes published on July 18th of the committee's meeting earlier this month, when it raised the base rate from 5.5% to 5.75%, revealed that three members wanted to keep rates unchanged. This minority pointed out that the bank's earlier rate rises had yet to work their way fully through to mortgage rates and the economy.

The base rate still looks set to reach 6.0% later this year. But that may be enough to do the trick, provided that sufficient evidence emerges that the economy and the housing market are starting to lose momentum.

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Bagehot

Yo, Brown!

Jul 19th 2007
From The Economist print edition

Steve O'Brien

British foreign policy and the "special relationship" are unlikely to change in the way that some people think

Gordon Brown

EARLIER this year, some top brass in America publicly worried about the emerging threat from Russia. The Russians said the Americans were scaremongering to boost their military budget, some of which, they probably assumed, extrapolating from their own experiences, would be diverted to build American *dachas*. This week, when Britain expelled four Russian diplomats over the Litvinenko affair, some in Moscow made similar allegations. They said that Gordon Brown and David Miliband, his new foreign secretary, were insulting Russia to burnish their own profiles. The views of many Russians are hopelessly cynical—but that doesn't mean that they are always wrong.

They are right inasmuch as Mr Brown's main political imperative is to prove that, despite his ten years at Tony Blair's right hand, he can offer voters a change; and the thing many voters would most like to see changed is Britain's foreign policy. Where the Russians are wrong is in their typically Russocentric conviction that Mr Brown and Mr Miliband would use them as an opportunity to signal the change. But, for those keen to find them, there have indeed been some hints of a new attitude towards the things Britons are genuinely cross about: Iraq, and what many see as the emasculating "special relationship".

First, there were Mr Brown's appointments. Mr Miliband—his young, brainy, might-have-been rival for the top job—was a sceptic of Israel's war in Lebanon. John Denham, who resigned from Mr Blair's government over Iraq, was brought into the cabinet. Most tantalisingly for foreign-policy Kremlinologists, Mark Malloch Brown became minister for Africa, Asia and the UN.

Lord Malloch Brown's last job was as the UN's deputy secretary-general, which would itself be enough to alienate a certain class of American unilateralist. Last year he made some critical remarks about America that had some of them reaching for their guns; and in a recent interview with a British newspaper, he was at it again. Anticipating a more "impartial" foreign policy, Lord Malloch Brown said he was happy to be described as an "anti-neocon". More smoke signals appeared to emanate from Douglas Alexander, a close ally of Mr Brown who is now the international development secretary. During a speech in Washington, DC, Mr Alexander extolled the virtues of multilateralism, "soft power" and international rules. Both Mr Miliband and Mr Brown mobilised to affirm the importance of Anglo-American co-operation; but, as with the

apparent reluctance of Mr Brown's ministers to use the phrase “war on terror”, the sharpest Kremlinologists might have heard implicit deprecation of George Bush even in Mr Brown's warm words, which emphasised shared values (liberty, opportunity, etc) rather than specific policies. And though both he and Mr Miliband are to cross the Atlantic soon—and both admire and have spent time in America—Mr Brown has already paid calls on assorted Europeans.

The Kremlinology has been encouraged by the fact that, those hasty reassurances apart, Mr Brown's foreign-policy thinking remains largely opaque. He has a reputation for grumpiness over Europe, based largely on his guardianship of the “five tests” for British membership of the euro. Like Mr Blair and Mr Bush, he is a Christian; but he seems to see the world more through the economic prism of GDP and jobs than the religious lens of good and evil. The opacity, plus the smoke signals, offer succour to those who would prefer to see Mr Brown as the heir to Clement Attlee—who rushed to Washington to see Harry Truman after loose talk of using nukes in Korea—than to Mr Blair. A cartoon in another paper, which replaced the Blair poodle with a Brown bulldog, peeing on Mr Bush's foot, captured their hopes.

They are unlikely to be realised. Lord Malloch Brown's outburst said more about the risks of the prime minister's wheeze of recruiting outsiders to government, than about his strategic vision; Mr Alexander's speech was less inflammatory than it was made to look. Anyway, if Mr Brown really wanted to reorient British policy, it would be he or Mr Miliband—under whom the foreign office seems set to regain some of the clout it lost under Mr Blair—who did it. And they have little reason to.

The odder couple

True, electoral timetables will influence Mr Brown's public attitude towards Mr Bush. Assuming that he is still in government in 2009—and speculation that Mr Brown may call a general election before then, and that he will win it, continues—he will one day have to work with a different president. Until then he will work with a different, more embattled Mr Bush. So he will have less need, and less inclination, publicly to rub his shoulder against Mr Bush's. But nor is he likely to thump it. Mr Brown would sorely like to accelerate the phased withdrawal of British troops from Iraq, not least so that more firepower can be concentrated on deteriorating Afghanistan; but there is little sign that he will actually cut and run and forsake the Americans. Meanwhile, Mr Bush could be useful to him.

It is a platitude that Mr Blair's foreign policy was his undoing, and its legacy baleful. Iraq is indeed a catastrophe; Britain is reviled in some parts of the world and vulnerable to Islamist terror. But in some ways, the strategic situation that Mr Brown inherits is rosy. In Europe Mr Blair defended his “red lines” in negotiations over the new EU treaty; with the accession of new members, and the election of new leaders in France and Germany, Europe's ideological centre of gravity has shifted in Britain's favour. As for Washington, although nobody should overestimate American sentimentality, Britain is in credit in the White House. The weaker Mr Bush becomes at home, the better placed Mr Brown may be to use that credit in the service of causes, such as third-world poverty, that are authentically dear to his heart. An odder couple even than Mr Bush and Mr Blair, America's president and Mr Brown still need each other.

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Papal diplomacy

God's ambassadors

Jul 19th 2007 | BUJUMBURA AND VATICAN CITY
From The Economist print edition

AFP

The Vatican has one of the world's busiest but least-known diplomatic services. Does it deserve its special status?

Get article background

THE job of representing the pope in Burundi brings with it a fine colonial villa, but nobody would say Archbishop Paul Gallagher has an enviable post. In 2003 his predecessor, Archbishop Michael Courtney, died in a hail of bullets after mystery attackers ambushed his car. Whoever they were, the killers were clear about their target: the vehicle bore diplomatic plates and a Vatican flag, while the Irish cleric, in white cassock and purple skull cap, was known to all; so was his role in negotiating a peace accord, sealed a month earlier. The day of his death, December 29th, is now a fixture in Burundi's calendar.

Thousands of miles away, on the frontier between Argentina and Chile, papal diplomacy is remembered in a different way. A mountain pass has been renamed after Cardinal Antonio Samorè, who before his death in 1983 helped settle a territorial dispute that could have led to war. In different ways, the Irish archbishop and the Italian cardinal represent the best of an ancient and often contentious quirk of the international scene: the fact that the Roman Catholic church, alone among faiths, is a diplomatic player.

Over the past century—despite the march of secularism—the Vatican's role in world affairs has expanded. In 1890 a famous English Catholic, Cardinal Manning, said the Holy See's diplomatic activities were “a mere pageant”, a medieval relic. He would be amazed to find that in 2007 papal diplomacy is more active than ever.

The real explosion came under John Paul II. When he was elected in 1978, the Holy See had full ties with 85 states. When he died, the figure was 174. Among states that dropped their misgivings were Margaret Thatcher's Britain, Ronald Reagan's America and Mikhail Gorbachev's Soviet Union. The Holy See now has full diplomatic relations with 176 states. Vietnam, China and Saudi Arabia are among the few without formal links. Recent years have also seen an expansion in the See's multilateral diplomacy. It sits in on the deliberations of 16 inter-governmental bodies, including the United Nations, the African Union and the Organisation of American States.

The Vatican acts, by its own choice, as a “permanent observer” rather than a voting member of the UN; but it is a signatory to some UN human-rights conventions, including those on racial equality and the rights of the child. It uses these vantage points to lobby for its ideas: non-violence, a better economic deal for poor nations, the extension of international law, support for marriage—and, controversially, the

“sanctity of life” from the time of conception, which means opposing contraception, abortion and euthanasia.

Arguments over the Holy See's diplomatic status came to a head in 1994 when the pope's envoys—lining up with Muslim states—used their muscle to water down the outcome of a UN meeting on population in Cairo. The Vatican took a similar, albeit slightly lower-key, stance at a follow-up conference in 1999. This prompted campaigners for “reproductive rights” to demand that the Vatican be stripped of its diplomatic status—arguing that neither as a state, nor as a religion, should the Holy See have a place at the UN.

The pope's “diplomatic service” is a reminder of his unique and ambiguous status as both a religious and temporal leader. Formally, the pope's diplomats represent the Holy See—not the Vatican state which, under a 1929 accord with Italy, is the sovereign power in part of Rome. But in years past, some states (such as America in the 19th century) would deal with the pope only as head of a sovereign state. The fact that pontiffs wear two hats, temporal and spiritual, gives them, and their interlocutors, a certain flexibility. In 2001, when Greece's Orthodox clergy grumbled over a visit by Pope John Paul II, the government in Athens could retort that it was merely receiving him as a head of state.

But more and more governments have in recent years seemed happy to deal with the Holy See on its own terms, especially after John Paul II boosted its global profile. For any state, an embassy to the See offers attractions. For poor ones, it is a chance to garner information from one of the world's best-informed chancelleries. For powerful ones, it offers a way to influence the Vatican and seek papal approval. Napoleon told his man in Rome: “Deal with the pope as if he had 200,000 men at his command.” After some years in Rome, the envoy said 500,000 was nearer the mark.

The real extent of the Vatican's power is hard to compute. One in every six human beings was baptised into the pope's church. Of course, many quit the faith, but he remains a global opinion-former. His views can sway Catholic votes—a point not lost on American presidents, who rarely miss a chance to visit the Vatican. In Burundi all top politicians and expatriates flock to Archbishop Gallagher's residence for the papal feast day. Cutting a lower profile than his predecessor, the 53-year-old Englishman reports only “occasional” contacts with Burundi's rebel factions, the last of which signed a ceasefire agreement in September 2006. In the rich world one respecter of papal clout is Britain's new prime minister, Gordon Brown. Three years ago this son of a Presbyterian minister went to seek Vatican endorsement of a proposal to boost aid to poor nations. This year he returned to co-launch a plan to bring new vaccines to poor states.

The pope's divisions

Papal diplomacy is almost as old as the papacy. But it was not until 1500 that a permanent nunciature, or diplomatic service, was established, in Venice. The earliest Protestant state to send an ambassador was Prussia in 1805: its envoy was Baron Wilhelm von Humboldt, a philosopher and linguist. The first non-Christian state to establish relations was Japan, in 1942.

Of the countries with links today, only 78 keep missions in Rome—and they form one of the world's odder diplomatic corps. The embassy with the biggest staff, along with that of Germany, is the Dominican Republic's. Iran has a large mission, with as many diplomats as America. (“Who knows what other duties they have?” sighs a senior Vatican official.)

AP

Courtney gave everything to his mission in Burundi

The diplomats' main point of contact with the papal administration is the Secretariat of State, housed in the pope's residence, the Apostolic Palace. It has two departments: the Section for General Affairs deals with national churches, while the smaller Section for Relations with States does conventional diplomacy. Its current head, in effect the Vatican's foreign minister, is Dominique Mamberti, a French expert on Islam. Born in Morocco, Archbishop Mamberti has represented the Holy See in Algeria, Chile, Lebanon, Sudan and at the UN.

Papal diplomats, all priests nowadays, are trained at the Pontifical Ecclesiastical Academy in Rome. The academy has had a colourful history, once losing its assets to a rogue administrator. Its graduates do two jobs: representing the Holy See to the local government and keeping a vigilant eye on national churches. Vatican envoys usually stay longer *en poste* than secular ones (one nuncio was in Dublin for 26 years). Some cover vast cultural distances: the nuncio in Algeria was born in Taiwan.

Conventional diplomacy is a small part of what they do. “In most places, 95% of our work relates to the life of the church,” says a former nuncio. “The overwhelming bulk of the correspondence has to do with the appointment of bishops.”

Another big difference between papal and ordinary diplomats is that the former have little protection—and never pull out of dangerous situations. “The pope leaves his representatives to suffer with the people of the country to which they are accredited,” says a Vatican official.

Compared with many foreign services, the Holy See's is tiny, less than 300-strong. There are rarely more than two people in each mission. According to the Vatican's official directory, the “Section for Relations with States” has only 18 diplomats and 29 other staff in Rome. Until recently, one desk officer watched Britain, South Asia and bits of Latin America. Yet visitors to the Vatican “foreign ministry” are amazed by the knowledge they find. “We are priests,” says one veteran. “We have no family. We work 24 hours a day if necessary. It's the key to understanding why we are so few, and so efficient.”

Oded Ben-Hur, Israel's envoy to the Holy See, adds that its diplomatic service is “just like any foreign service, with different people having different abilities. But they have an advantage: they are highly cultured. They know languages. They know history. They are very well-informed.” A former papal envoy to a war-torn nation tells with pride how the American embassy would send a diplomat each morning to ask him about the war zones, knowing the pope's man would have been fully briefed by local nuns.

Like their secular counterparts, these brainy clerics have in recent years had to share the diplomatic action with other institutions, both official and unofficial. The Pontifical Council for Justice and Peace, a sort of overseas-aid ministry, speaks for the Vatican in some forums, while an independent Rome-based body, the Sant'Egidio Community, has achieved some of the more spectacular successes of Catholic diplomacy. Sir Ivor Roberts, a former British diplomat who worked with Sant'Egidio over schools in Kosovo, calls it an “unorthodox, extra *corps d'elite*” that can plug gaps “in areas where conventional diplomacy hasn't worked.” Mario Giro, a Sant'Egidio official, says it is now doing mediation work in “Darfur, Ivory Coast, north Uganda and two other places outside Africa I cannot name”.

In Burundi last year the Catholic Peacebuilding Network—which calls itself “a network of practitioners, academics, clergy and laity”—held a meeting on the Great Lakes region that involved the nuncio, local

bishops, Sant'Egidio and other Catholic agencies: an array of expertise on the related conflicts of Burundi, Rwanda and Congo. Last month the network held a similar pan-Catholic forum in Colombia.

Even as they share tasks with sister agencies, envoys from the Vatican must live with the fact that their boss—like any political master—reserves the right to upset the whole apple-cart with “undiplomatic” outbursts. John Paul II's blunt talk about communism swept away years of cautious accommodation. His successor has upset Muslims (by seeming to link their faith with violence), South Americans (dismayed by his views on the record of missionaries), Jews (because of the revival of a liturgy whose original form called for their conversion, though the number two in the hierarchy has said that bit of the rite might be changed), and most recently, Protestants, who ask why the Vatican chose last week to repeat its view that their churches don't deserve the name.

These embarrassments highlight one of the drawbacks of the Holy See's ambiguous situation: it enjoys many of the privileges of a state while also speaking for a faith. Vatican officials say this paradox is both defensible and beneficial: unlike diplomats who act for a state, and whose first duty is to promote and protect its interests, papal envoys strive for the good of humanity. A former Vatican “foreign minister”, Cardinal Jean-Louis Tauran, said recently the Holy See “tries not only to promote and defend, if necessary, the freedom and rights of the Catholic communities around the world, but also to promote certain principles without which there is no civilisation.” But it also has a specific political agenda. It wants international status for Jerusalem. It recognises Taiwan as China. Listing the keystones of foreign policy, Cardinal Tauran stressed the “right to life at all stages of biological development”.

Statements like that make the Vatican respected in some quarters, mistrusted in others. Some activities, such as taking lethal risks for peace in Burundi, are almost universally admired. But in an age when the power of independent agencies (including Catholic ones) is growing by the day, mightn't the Vatican enhance its authority by clarifying its own status? Instead of claiming to practise a form of inter-governmental diplomacy, it could renounce its special diplomatic status and call itself what it is—the biggest non-governmental organisation in the world.

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The West and a grumpy Russia

Cutting arms cuts

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From The Economist print edition

Russia threatens treaties in Europe

RUSSIA'S western borders were never more peaceful. So why is Vladimir Putin threatening to suspend or pull out of two treaties—one governing the movement of troops, tanks and the like, the other banning America and Russia from having intermediate-range nuclear missiles—that have brought predictability and security to Europe for two decades? Three weeks ago at their "lobster summit" in Maine, Mr Putin was offering to co-operate with George Bush over missile defences that could help protect America, Russia and Europe against possible future threats from the likes of Iran. Now it is back to fist-banging.

Mr Putin has given 150 days' notice that Russia will suspend its involvement in the 1990 Conventional Forces in Europe (CFE) treaty governing which troops, tanks, artillery and aircraft can go where, from the Atlantic to the Urals. Russia was not "shutting the door to dialogue", purred a deputy foreign minister. The suspension could therefore still be suspended. But Russia first wants others to ratify amendments to CFE, agreed in 1999, as Russia has done. The new version took account of the end of the Soviet Union, and relaxed some of the restrictions on deployment of Russian forces in its restive southern republics, but no NATO government has ratified it.

AP

Putin ponders the eject button

As NATO officials point out, that is because Russia has not yet withdrawn all its soldiers, as it promised, from Georgia (where they are camped in a breakaway chunk called Abkhazia) and Moldova (where they lend succour to Transdniestria, a rebellious and lawless strip). At an emergency conference of CFE parties called earlier this year, at Russia's request, after Mr Putin first threatened to stop observing the treaty, NATO proposed multinational peacekeeping contingents, that could include Russian troops, to finesse the problem. More talks are in prospect.

Russia has other beefs. It frets that despite earlier promises America is building bases—they are limited training sites, say American officials—in two new NATO recruits, Bulgaria and Romania. Russia now says it reserves the right to deploy more of its own heavy weapons to its western and southern borders, should NATO send forces there.

Ironically, Mr Putin has taken umbrage just as America has been thinning out its troops in Europe, moving them to deal with today's more global threats. He may feel free to play fast and loose with CFE precisely because he has no fear of military retaliation.

Tearing up the 1987 Intermediate-Range Nuclear Forces (INF) treaty—as Russian military officials have repeatedly suggested to the Bush administration—could prove more damaging. Back in the days of confrontation in Europe, Soviet deployment of SS-20 missiles in then East Germany and Czechoslovakia, and America's counter-deployment of Pershing and cruise missiles in Europe, heated the cold war to one of its periodic simmers.

The INF treaty subsequently banned both superpowers from building or deploying land-based missiles with ranges from 500-5,500km (300-3,400 miles). This was the first agreement to cut nuclear arms, rather than just set ceilings on them, and the first to allow intrusive on-site inspection. Were Russia (and Ukraine, a former Soviet republic) to start building such missiles again, there could be a new missile crisis in Europe.

Earlier this year Mr Putin said the treaty no longer served Russia's interests: others (read China, but also

Iran and others) are free to build such missiles. In reality, Russia has plenty of other nuclear weapons to deter these threats. And while Mr Putin never directly connected his offer to co-operate over missile defences to the problem of Iran, Iranian officials took Russia to task.

So what is Mr Putin really up to? Russian officials have a long list of slights: some imagined (such as NATO getting more threatening to Russia), some real (such as the American Congress's lamentable failure to repeal the Jackson-Vanik amendment that linked trade with the Soviet Union to the rights of Soviet citizens to emigrate). What Russia wants, most observers agree, is respect for the petro-dollar-fuelled power it has become: treaties signed when it was weaker are targets.

Mr Putin also seems to want to drive a wedge between Europe and America. He no doubt misses his matiness with France's former president, Jacques Chirac, and Germany's Gerhard Schröder in their opposition to the war in Iraq.

But, well disguised by his sometimes outrageous rhetoric, Mr Putin also has genuine military concerns. America and Russia may not be the enemies they once were, but the Bush administration still looks askance at binding agreements to limit the two sides' strategic nuclear arsenals after the current Moscow treaty governing them expires in 2012. Meanwhile the counting rules being used (which date from the earlier Start-1 treaty) will lapse in December 2009.

Neither side wants to continue all the cumbersome Start-1 rules. Russia is keener on simpler but detailed inspections of the things the two sides can agree to count than some of Mr Bush's officials are. Congress and America's intelligence community would like to see proper transparency over future arms cuts too, says Rose Gottemoeller, head of the Moscow office of the Carnegie Endowment, a think-tank. But diehards on both sides, just like Mr Putin's fist-banging, aren't helping.

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The revolution strikes back

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Getty Images

An uncompromising Iran and an uncomprehending America may be stumbling to war, says Peter David (interviewed here)

Get article background

IT IS Friday prayers in Tehran. Several blocks around the university and Palestine and Revolution Squares have been closed to traffic, as they are every week at this time. Throughout the morning lines of soldiers in khaki and Revolutionary Guards in green have been filing into a vast hangar. Knots of civilians stroll up in the sun. From within, loudspeakers squawk sermons and bursts of martial music.

This week happens also to be the 25th anniversary of the liberation of Khorramshahr, a bloody Iranian victory during the eight-year "imposed war" against Iraq. All week footage of the fighting has been broadcast on television, even filling the half-time gap in the European football cup final between AC Milan and Liverpool (which soccer-mad Iranians watched avidly). The Iran-Iraq war cost Iran hundreds of thousands of lives, helping to consolidate the very revolution Saddam Hussein had foolishly attacked. Posters of the martyrs still adorn the streets of Tehran.

Inside the hangar tens of thousands of men (the women are screened out of sight) sit in rows on prayer rugs. At the front under a podium is much of the country's turbaned political leadership. Also present is General Yahya Rahim Safavi, the commander of the Revolutionary Guards, which wrested control of the war from what had been left of the shah's army and has exercised growing influence in Iran ever since. Under the podium a green banner proclaims: "So long as America sticks to its present policy Iran will not have negotiations with it." Now, before the main sermon, comes the warm-up. A speaker denounces Islam's foes. "Shame on you Israel, down with Israel," the seated throng bellows in response, fists pumping in unison. "Death to America."

The prayer leader takes his place behind a lectern. In one hand he holds a gun, to represent the sword of Islam. He then recites in a tremulous voice the lamentation for the Shias' first-century martyr, Imam Ali. At this the assembled worshippers cradle their heads and sob, shoulders heaving with sudden grief. The preacher then takes a sip of water, signalling that this morning's main political message—which will be preached at similar meetings in all of Iran's cities—is about to be delivered.

Today's theme is a forthcoming meeting in Baghdad between Iranian and American diplomats, the first formal direct contact after decades during which neither country has been willing to talk to the other. The preacher is at pains to explain that Iran is not showing weakness. "That carnivorous wolf is not of the type to enter negotiations," he says of America. "America is only after securing its own hegemony." Isn't America the axis of evil? Wasn't refusing to talk to America a principle of the blessed Ayatollah Khomeini? There will be no departing from principle, he says. All that has happened is that Iraq's government has asked for help. And all Iran will do is insist that as Iraq's occupiers the Americans are responsible for the mayhem there. "We can with most certainty announce today that the United States has become the

obvious manifestation of the axis of evil in the region," he declaims. The seated throng roars its assent.

The audience in America

Tehran's Friday prayers are broadcast all over Iran and around the world. The fiery slogans of the worshippers reinforce the scary fanaticism outsiders have come to associate with the Islamic Republic since Ayatollah Khomeini's revolution more than a quarter of a century ago. And nowhere in the world do Tehran's morning prayers have a more attentive audience than in the capital of the United States.

For all its problems in Iraq, America is also fixated on Iran. In 2005 George Bush promised that he would stop "the world's most dangerous men from getting their hands on the world's most dangerous weapons". That same year a brash former mayor of Tehran, Mahmoud Ahmadinejad, won a surprise victory in Iran's presidential elections. Since then he has done his level best to look like one of the world's most dangerous men.

President Ahmadinejad took over from a middle-aged cleric, Muhammad Khatami. As president, the mild, bespectacled Mr Khatami had pushed for liberal reforms at home and talked reassuringly to the outside world about Iran's desire for a "dialogue of civilisations". The new president, a former Revolutionary Guard and a Holocaust-denying demagogue, does not do reassurance. Since his election Iran has defied the UN Security Council's orders to stop enriching uranium, threatened repeatedly to make Israel disappear and declared war on Iran's internal reformists.

Switch to a typical week in Washington, DC, just before those Friday prayers. The Washington Institute for Near East Policy is holding a symposium on Iran's "unacceptable bomb". Robert Kimmit, the deputy treasury secretary, tells delegates how America is tightening sanctions on Iran. From Jerusalem by video Shimon Peres, Israel's elder statesman (and now president), says that if Iran develops nuclear weapons, they may fall into the hands of terrorists. A British diplomat argues that Iran's nuclear programme threatens "irreparable damage" to the Nuclear Non-Proliferation Treaty (NPT).

Also in this typical week another think-tank, the American Enterprise Institute (AEI), unveils a database listing foreign investments in Iran. Journalists are given a CD on which they can look up who is thought to be investing what in Iran. Why? Because, says Danielle Pletka, an AEI vice-president, people need to understand that between (a) doing nothing about Iran and (c) dropping a bomb on it is a third possibility, (b), of inflicting economic pain until the mullahs change their ways. This week too Dick Cheney pipes up from the deck of *USS John Stennis*, one of the additional aircraft carriers America has sent to the Persian Gulf. The vice-president says America will "stand with our friends" to stop Iran getting nuclear weapons and "dominating this region".

Some say that Mr Cheney is the last hawk standing in the Bush administration. But anxiety about Iran's nuclear intentions stretches right across American politics. Condoleezza Rice, the secretary of state, claims that America faces "no greater challenge from a single country than from Iran". And most of the presidential candidates for 2008 are talking equally tough.

Hillary Clinton favours opening a "diplomatic track" with Iran. John Edwards supports a "non-aggression pact". Barack Obama says it would be a "profound mistake" to start a war. But neither Mrs Clinton nor Mr Edwards nor Mr Obama rules out force if Iran persists with its nuclear plans.

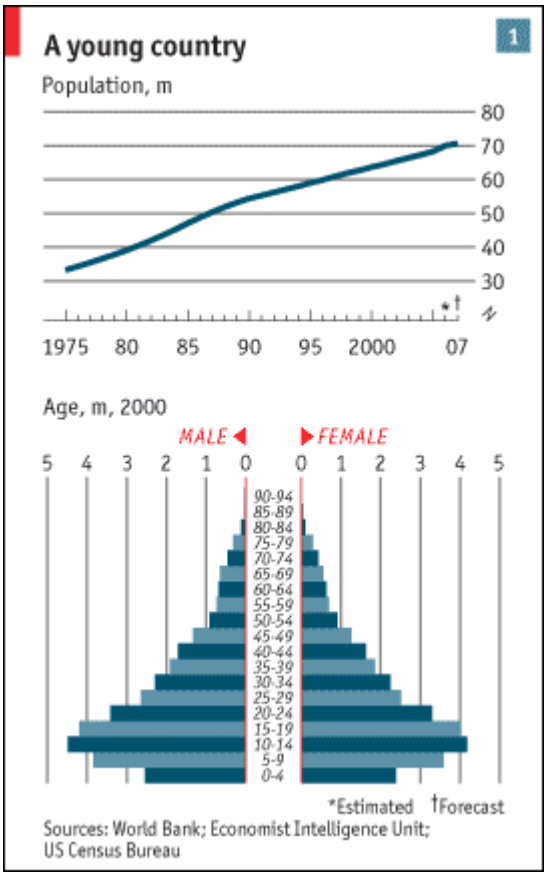
For Rudy Giuliani, the Republican front-runner, a military strike would be "very dangerous", but nuclear arms in the control of "an irrational person" like President Ahmadinejad would be more dangerous still. Would he consider using tactical nuclear weapons against Iran? "You can't rule out anything." John McCain recently broke into song, intoning "bomb-bomb-bomb bomb-bomb Iran" to the tune of a Beach Boys song.

Alongside the work of the think-tanks and the warnings and ditties of the politicians comes a drumbeat of alarming newspaper articles. In the *Wall Street Journal*, Norman Podhoretz, a hero of the neoconservatives, concludes in an op-ed piece: "The plain and brutal truth is that if Iran is to be prevented from developing a nuclear arsenal, there is no alternative to the actual use of military force—any more than there was an alternative to force if Hitler was to be stopped in 1938."

The audience in Iran

Is that really where things stand with Iran—a new Hitler and a new 1938? Look again at Tehran's Friday prayers. One thing a visitor notices at once is how little connection this stage-managed event has with the everyday life of the bustling metropolis around it. Even the audience, squatting in serried ranks beyond the dignitaries, looks untypical.

Iran is a young country (see chart): two out of three people are below the age of 30. On the streets of affluent north Tehran, young people dress in the latest fashions—even if the jeans-clad women are obliged by law to wear the Islamic headscarf (the *hijab*). The audience at prayers, however, is older: shabbily dressed men well into their 40s, regime stalwarts who have trekked uphill from the poor southern suburbs.



Which is the true Iran—the consumer-oriented young, bored by the slogans of a long-ago revolution and impatient to move on? Or the regime faithful chorusing the familiar slogans at Friday prayers?

It is tantalisingly hard to know. With 71m people and a multitude of languages and ethnicities, Iran is a difficult place to read. Although it has elements of democracy, including an elected president and parliament, the state is not ultimately controlled by elected institutions. And even the elected bit of the system is a backstage game of personalities and factions, not a transparent process rooted in political parties. Press freedom is limited, almost no serious independent opinion polling is allowed, and many official economic statistics appear simply to be made up. All this makes the regime's inner workings elusive. Outsiders can only follow the trend and make a guess.

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Men of principle

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Iran's neoconservatives and their “white coup”

Get article background

LAST time *The Economist* visited Iran for a special report, in 2003, the so-called “Tehran spring”—a period of cautious political liberalisation under the presidency of the soft-spoken Mr Khatami—was drawing to a close. He had won a landslide election in 1997 and a renewed though smaller mandate in 2001. These victories had signalled that the people of Iran wanted change: freedom of thought and speech, political diversity, a more open economy, tolerance, the rule of law and a friendlier stance towards the outside world. But as president, Mr Khatami had limited powers to deliver what they wanted.

That was because the constitution drawn up under Ayatollah Khomeini adopted a doctrine known as *velayat-e faqih*, in which an Islamic jurist sits as “supreme leader” at the apex of politics. And over the course of the Khatami presidency the unelected part of the structure, directed by the present supreme leader, former president Ayatollah Ali Khamenei, systematically throttled most of the changes Mr Khatami and his fellow reformers proposed.

Eyevine

Dressing to kill a revolution

Dozens of newspapers opened during the Khatami period, only for many to be shut down on one pretext or another by the judiciary. Clerics who took advantage of the new atmosphere to question the doctrine of *velayat-e faqih* were imprisoned or otherwise cowed. Even as political debate blossomed, Iran's security services cracked down on religious and ethnic minorities. A number of the regime's critics fell victim to murders traced later to the interior ministry. In 1999 police reacted to a peaceful demonstration for freer speech by invading Tehran University, beating and arresting hundreds of students and killing at least one. In the *majlis* (parliament) much of the president's reforming legislation was vetoed by the Council of Guardians, a committee of clerics appointed by the supreme leader to ensure that laws conform with Islamic precepts.

By 2004 Mr Khatami's failure either to stand up to these assaults on his programme or to deliver economic progress had led to widespread disillusion. That year, hardliners won a big victory in parliamentary elections. And in 2005 presidential elections produced an unexpected victory for Mr Ahmadinejad, then a little-known former mayor of Tehran.

The Tehran spring of ten years ago has now given way to a bleak political winter. The new government continues to close down newspapers, silence dissenting voices and ban or censor books and websites. The peaceful demonstrations and protests of the Khatami era are no longer tolerated: in January security forces attacked striking bus drivers in Tehran and arrested hundreds of them. In March police beat hundreds of men and women who had assembled to commemorate International Women's Day.

The consequences of dissent

According to Human Rights Watch, an international lobbying group, detainees are routinely tortured in clandestine prisons operated by the judiciary, the information ministry and the Revolutionary Guards. The rate of executions appears to have speeded up, too. Iran now executes more people than any other country except China—often without giving defendants a fair trial. Homosexuality is one of the crimes punishable by death.

In recent months the slide back into authoritarianism has accelerated. Tehran's annual campaign against

“bad *hijab*”, when police harass or arrest women who show too much hair under their obligatory headscarves or make themselves up to look sexy, has been unusually severe. A series of high-profile arrests seems calculated to intimidate dissenters. Some of those arrested have been visiting American citizens with dual citizenship. (One, Haleh Esfandiari, from the Woodrow Wilson Centre in Washington, is the wife of Shaul Bakhash, a noted scholar and former writer for *The Economist*. She was detained and imprisoned while visiting her mother in Tehran.) More shocking inside the country was the arrest in April of Hossein Mousavian, a former Iranian ambassador to Germany and former nuclear negotiator, on suspicion of espionage. The arrest of a regime insider on such an outlandish charge sent a shudder through Iran's political establishment. Mr Mousavian is close to Akbar Hashemi Rafsanjani, a former president and Mr Ahmadinejad's defeated rival in the 2005 election.

If you are determined to give Iran the benefit of the doubt, one way to interpret these developments is to see them as the swing of a political pendulum—the sort of wobble you might expect in any country making a fitful transition to democracy. By 2005 Mr Khatami's reforming presidency had after all run out of steam. Mr Ahmadinejad won a popular election. The people seemed once again to want change, but change of a different kind: economic “justice” and redistribution rather than a political and cultural opening.

Mr Ahmadinejad, the austere son of a blacksmith, ran as an economic populist, adroitly harnessing the conviction of the *mostazafin*—Iran's “downtrodden”—that their basic needs had been neglected by the political reformers. A big part of his appeal was his promise to tackle the corruption many voters associated with the older brand of conservative, such as Mr Rafsanjani, whom many Iranians believe to be a billionaire as well as a cleric.

Nonetheless, says the pendulum theory, Iranian politics is still an affair of checks and balances. The new president is not invincible. His erratic economic policies—especially when combined with the impact of sanctions—will prevent him from satisfying the expectations he has aroused. By the time of the next *majlis* elections in 2008, or the presidential ones in 2009, the reformists will have regrouped and the pendulum may swing back.

In Iran, it is said, you can always dredge up plenty of evidence to support any theory you care to believe in. So it is with the theory of the pendulum. Mr Ahmadinejad has been in office for less than two years, but that has been time enough to produce plenty of evidence that his power is limited and his tenancy may be short. Despite the endorsement of the supreme leader (Ayatollah Khamenei has called him Iran's best president since the revolution), Mr Ahmadinejad has faced vehement opposition, not least from the *majlis* itself.

From the start, the *majlis* resisted many of his choices for cabinet jobs. It also rejected many of his spending plans. More than 30 *majlis* members have signed a petition that would summon the president to appear in parliament to explain his alleged policy failings. A year ago 50 prominent economists sent him an open letter attacking his economic policies. Last month they sent another, with additional signatories.

Mr Ahmadinejad's mounting bellicosity on the international stage—his threats against Israel, questioning of the Holocaust and nuclear defiance—has also run into robust internal criticism. This seemed to reach a crescendo last December when voters handed him a serious indirect rebuff. In municipal elections and elections for the Assembly of Experts (the body that elects and supervises the supreme leader), most of the candidates Mr Ahmadinejad supported were defeated.

Does this mean that the hardliners as a whole are in trouble? Not necessarily. In Iran's faction-based politics, the divisions between political blocks are not clear-cut. Factions tend to coalesce before elections and then break apart once they have got their man in. At the same time the defeated factions seek to form coalitions in the hope of reversing their defeat next time round. Right now the hardliners who rallied around Mr Ahmadinejad in 2005 are less concerned to maintain unity, whereas the main opposition groupings are feeling their way towards an alliance.

In the *majlis* these consist of a rump of Khatami-style reformists and a larger block of people who travel under the “conservative” banner but who are pragmatic in their approach and oppose Mr Ahmadinejad's brand of what many outsiders have come to call “neoconservatism”.

Could the older-style conservatives such as Mr Rafsanjani and the reformists band together and win next time? That is what the pendulum theorists hope. This being Iran, however, plenty of evidence can also be found to prove that the pendulum theory is wrong.

A parallel universe

One of the theory's defects is its underlying assumption that power swings back and forth with election results. In Iran it doesn't quite. In 1997 Mr Khatami won a very handsome democratic mandate for reform, but by winning the presidency he did not win a free hand to govern.

Iran, remember, is at best a quasi-democracy: in parallel with the elected system exists another system that is unelected. Its elements include the armed forces (especially the Revolutionary Guards), the Council of Guardians, the judiciary, the senior conservative clerics and a vast administrative machine that reports directly to the supreme leader. By and large this unelected system is made up of strong believers in the original ideology of the revolution, or at least people who have a strong vested interest in it. A common self-description of these people is that they are *osoulgara*, or “principle-oriented”.

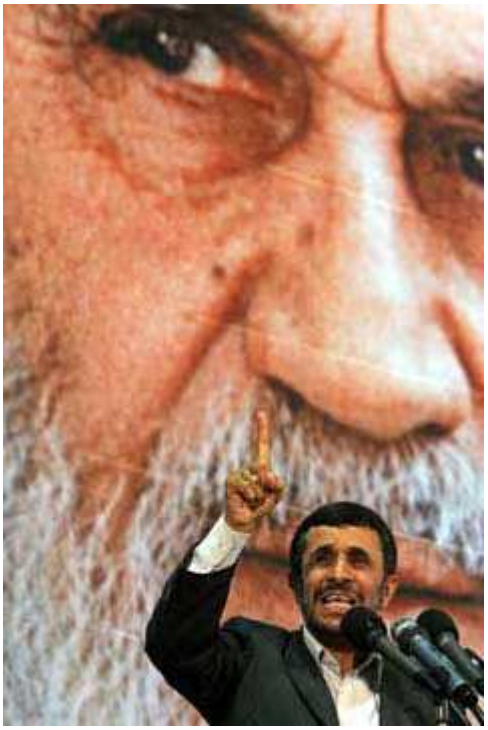
The principle-oriented custodians of the revolution did not wait until the election of Mr Ahmadinejad before taking action against Mr Khatami's reforms, which they interpreted as a potentially lethal threat to its core values. With the connivance of the supreme leader, they simply used their executive power and a compliant judiciary to override the wishes of the legislature and the voters.

By these means President Khatami was deprived of his power long before he was deprived of his office. Nor did the men of principle think it safe to leave the choice of his successor to Iran's voters. The election took place only after legions of candidates had been disqualified by the Council of Guardians. By way of insurance there was also judicious fiddling on election day: reformists complain that the Revolutionary Guards and their associated Basij militia of perhaps a million young volunteers were drafted in to intimidate voters and stuff ballot boxes.

Take all this into account, and what is happening in Iranian politics begins to look more sinister than the swing of a pendulum. Some opposition politicians prefer to describe what Iran is experiencing as a “white” (ie, bloodless) military coup. This did not start with President Ahmadinejad, though as a war veteran and former Revolutionary Guard commander he is typical of the class and generation behind it. It has been developing quietly ever since the men of principle began to fear that their revolution would not survive the encroachment of Western ideas, consumer habits, satellite television and the rise of a generation that had no direct memory of either revolution or war.

This is not the sort of coup in which the armed forces have to make an overt grab for power, because the supreme leader is part of the conspiracy. The fear, rather, is that with all the state institutions now in conservative hands the unelected centres of power are coalescing behind a single hard line and taking over all the top jobs. And in the name of principle this group (one *majlis* member calls it the “power in the shadow”) has no qualms about bullying parliament or suborning the judiciary.

AP



Ahmadinejad: rekindling of old fire

Mr Ahmadinejad is part of this group, but its survival does not depend on his. Indeed, many of the conservatives who supported his presidency are beginning to cast around for a more moderate, cooler-headed replacement (one possibility is Mohamed Baqer Qalibaf, the mayor of Tehran). “If necessary they will sacrifice him to protect themselves,” says Isa Saharkhiz, the outspoken managing editor of *Aftab*, a reformist monthly. So strong is the military-clerical nexus under the supreme leader that Mr Saharkhiz dismisses the possibility of the reformists winning re-election. He says the Council of Guardians will simply disqualify their candidates.

A principal exhibit in the theory of the white coup is the relentless increase in the influence of the armed forces, especially the elite Revolutionary Guards. The Guards bared their teeth early in the reform period. Within a year of Mr Khatami's election as president their commander, General Rahim Safavi, was calling the reformers “hypocrites”. In one notorious intervention he suggested that those reformers who (in his view) threatened the revolution should be beheaded.

Now that one of their own is president, the influence of the Guards has broadened. A large cohort of

former Guards sits in the *majlis*. The Guards maintain their own intelligence agency and secret prisons. Men with close links to the Guards control principal media outlets such as the state broadcaster as well as the powerful Ministry for Islamic Guidance and Culture. Three years ago the Guards showed their strength by deciding on their own authority to close down the capital's new Imam Khomeini International Airport. They claimed that a decision to allow a Turkish consortium to operate the terminal had posed a threat to national security; but many Iranians think the real reason was that a company close to the Guards had lost its bid for the tender.

It may therefore be no coincidence that in the past two years the Guards' commercial interests have prospered. Their engineering arm, known as Ghorb, has been granted juicy slices of big state projects, including the building of gas pipelines and a new section of the Tehran metro.

Sayeed Laylaz, a former government official and now a private economist in Tehran, says simply that the Guards are “Iran's *nomenklatura*—a new social class formed by domination of the economy”. Within ten months of Mr Ahmadinejad's election, he reckons, the value of civil contracts awarded to the Guards, many of them without going to competitive tender, had trebled from $4 billion to $12 billion. On top of this, the Guards are also thought to be in charge of Iran's nuclear-weapons programme, a political and technological responsibility conferring huge influence and prestige within the ruling system.

A plot a day keeps opposition away

What makes Iran's future especially hard to predict right now is its testy relationship with the outside world, and particularly with the United States. That is because the direction Iran takes will depend not only on its own choices but also on what the world does to it. Many Americans, and many Iranians living in America, believe that the regime is so unpopular that it can indeed be reformed or even removed from within—if only the opposition receives a bit more help. To that end the American government has earmarked scores of millions of dollars to help Iranian “civil society” and pro-democracy groups.

But reformers inside the country dare not touch this money. Ebrahim Yazdi, leader of the Freedom Movement, which supported the revolution but is now a courageous voice for democracy, says that such programmes merely give the authorities an excuse to “intensify the repression”. The government cites these American funds as proof that the United States is plotting its overthrow. Fearing (or claiming to fear) that America is fomenting a “velvet” revolution, it has used them to justify its arrest of foreign visitors.

In recent months almost all contacts between “civil society” and the West have fallen under real or manufactured suspicion. In May American would-be participants in an economic conference organised by the Ravand Institute, Tehran's first independent economic think-tank, set up by Iran's former ambassador to London, were denied visas. In June Iranians who had the temerity to attend a reception at the British embassy to mark the queen's birthday were harassed on their way in and out by police and rent-a-mob demonstrators. The regime is cutting down the number of foreign journalists based in Tehran and restricting the movements of those who remain. The country is being put on a “war footing”, says one.

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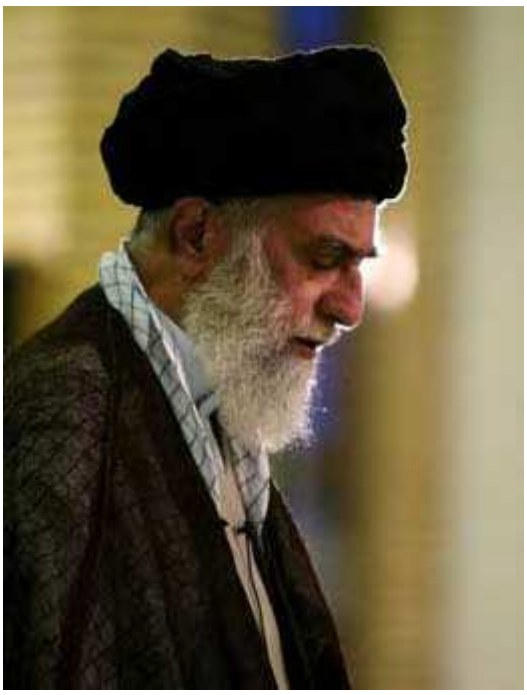

Khamenei: supremely paranoid

It is a familiar pattern. Writing from exile, Akbar Ganji, one of Iran's best-known dissidents, says the hardliners have consistently cited American policies towards Iran as an excuse to crack down on internal foes. “Politicians with close ties to the military establishment have taken control of the Iranian government and are trying to manage the cultural and political arena in the style of a police state,” he says in the *Boston Review*. “These policies are, in turn, aggravating hostilities and allowing the Bush administration to justify its belligerence. Thus the vicious cycle continues.”

A similar mechanism operates in the nuclear debate. Shahram Chubin, director of studies at the Geneva Centre for Security Policy, argues in a recent book that although Iran resumed the shah's nuclear programme for security reasons during the war with Iraq, its motivation now has at least as much to do

with internal politics. As the revolution started to falter in the 1990s, he says, the nuclear option offered a way to rally nationalist opinion and “legitimate the regime”.

So it has proved. Mr Ahmadinejad and his coterie have succeeded brilliantly in portraying the regime's quest for nuclear “technology” (it is careful never to speak of nuclear weapons) as a matter of national pride. Most Iranians do not see why a great nation such as theirs should be denied a technology others are allowed to have. This has wrong-footed the pragmatists, such as Ayatollah Rafsanjani, who supports the nuclear programme but would work harder to prevent it from antagonising the world and isolating Iran.

For Iran's men of principle it may be that antagonising the world and isolating Iran are very much part of the point. Hermidas Bavand, a Tehran-based academic, says that just as revolutionaries in Russia and China took fright when their ideas stopped resonating with the people, those in Iran think that their survival depends on making Iranians feel surrounded, isolated and beset by foes. A particular group, he says, wants to make the revolution permanent “in order to retain their control of the power structure”—and for this it is helpful if they can point to enemies everywhere.

The more that outsiders meddle, the deeper the regime digs in. Better to let the country find its own way towards democracy, the reformers say. But can the world afford to leave Iran to its own devices? If they are nuclear devices, perhaps not.

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Bombs away

Jul 19th 2007
From The Economist print edition

A suitable case for pre-emption?

Get article background

AMERICA and many other countries are convinced that Iran is trying to build nuclear weapons. But Iran denies this, and after the intelligence bungles in Iraq such claims need to be examined with care. The Iranians remind the world that their soldiers were victims of Saddam's poison-gas attacks during the Iran-Iraq war, and that they never retaliated in kind. Ayatollah Khamenei, the supreme leader, has gone so far as to issue a *fatwa* (religious decree) declaring the possession or use of WMD in general, and nuclear weapons in particular, to be illegal under Islamic law.

Furthermore, Iran's leaders point out that unlike existing nuclear-weapons states in their neighbourhood, such as Pakistan, India and Israel, Iran has signed the Nuclear Non-Proliferation Treaty (NPT). It has therefore submitted itself to inspections by the International Atomic Energy Agency (IAEA), the treaty's watchdog. When asked why a country overflowing with oil and gas should want nuclear energy, Iran answers that its oil revenues will one day diminish and that in the meantime nuclear energy at home would free more petrol for export. Besides, say the Iranians, America and other Western countries were happy to help the shah establish a nuclear industry before the revolution. Why should what America deemed to make economic sense at that time be thought absurd now?

It should also be noted in Iran's defence that the nuclear agency has as yet found no conclusive evidence that Iran is running a nuclear-weapons programme. In a report to the IAEA's governors last March, Mohammed ElBaradei, its director-general, said only that until Iran gave the agency more information about its nuclear activities—some of which it kept secret for many years—his agency would “not be able to provide assurance regarding the exclusively peaceful nature of all of Iran's nuclear activities”. In short, the IAEA has no firm evidence that Iran is trying to make a bomb, but it has plenty of suspicions and cannot give it a clean bill of health.

The IAEA, however, is a cautious organisation with a mixed record. In the 1980s it failed to detect Iraq's nuclear-weapons programme at a time when it was in fact making rapid progress. In Iran, the agency's attempts to monitor nuclear activities have been hampered by years of deception. And Iran's credibility suffered a massive blow in 2002 when a dissident group, perhaps tipped off by Western spies, revealed that the country had built two nuclear facilities in secret without informing the IAEA. One of these, in Arak, was a heavy-water reactor, just the thing for making plutonium, which is one way to fuel an atomic bomb. The other, at Natanz, was a facility for enriching uranium, which is the other way of doing it.

It is true, as Iran says, that the centrifuges at Natanz can also make the less enriched fuel that a nuclear reactor would need for producing electricity. But since Iran does not yet have any such reactors (other than the one the Russians have built for it at Bushehr, which comes with Russian-supplied fuel), why the rush to enrich? Why try to keep both Arak and Natanz secret? And why has Iran apparently co-operated with both North Korea and A.Q. Khan, Pakistan's notorious nuclear-weapons smuggler?

Iran's answer to these questions is that it was forced to keep these nuclear activities secret because America was intent on blocking its civil nuclear programme, even though having such a programme was its “inalienable right” under the NPT. Iran also argues that under the letter of the law it was not required to disclose the existence of these facilities until uranium enrichment actually began—which, it says, it intended to do.

In 2003, embarrassed by the discovery of its secret facilities, Iran agreed to implement the “additional protocol” of the IAEA, making its facilities available for fuller inspection. After negotiations with Britain, France and Germany it agreed to suspend uranium enrichment. But it continued to insist on its right to resume it, and in August 2005, the month of Mr Ahmadinejad's inauguration, it did so—even though the three European governments had offered it economic and civilian-nuclear help in exchange for stopping permanently. In June 2006 the incentives on offer for nuclear compliance were both broadened (all five permanent members of the Security Council, and Germany, endorsed them) and sweetened. Condoleezza Rice said that if Iran accepted, America would drop its long-standing refusal to negotiate directly with Iran and open talks on a wide range of subjects.

From America's perspective this was a big concession. And yet, for one reason or another, Iran did not bite. And in the past year its readiness to pay a growing price for its determination to press on with enrichment and so master the entire nuclear-fuel cycle has inevitably added to suspicion of its intentions. Part of that price has been losing the diplomatic protection that Russia and China had previously given it in the Security Council. In July 2006 the council ordered Iran to suspend enrichment. Its refusal resulted in two further resolutions—in December 2006 and March 2007—imposing modest sanctions, with a third now in preparation. And yet the centrifuges spin defiantly on. Little wonder that the working assumption in many capitals is that Iran wants the bomb.

If that assumption is correct, how soon might it get one? Mr Ahmadinejad keeps claiming that Iran has already passed the stage of no return in its attempts to master enrichment, but continues to deny that Iran wants the bomb. “We have broken through to a new stage and it is too late to push us back,” he said in June. Most outside experts, however, are sceptical about how much progress Iran has made.

A common estimate is that in order to produce enough fissile material for a basic device, Iran would have to run an array of some 3,000 centrifuges at high speed for more than a year. Mr ElBaradei told a meeting of the IAEA last month that Iran already had between 1,700 and 2,000 centrifuges running, and predicted that this number could rise to 3,000 by the end of July. But the amount of uranium hexafluoride—the gas put into the machines for enrichment—has been relatively small, suggesting to some analysts, including the IAEA, that Iran is not yet confident of its ability to spin them at full speed.

One respected expert, David Albright, president of America's Institute for Science and International Security, reckons Iran would be lucky to be able to enrich enough uranium for a bomb by 2009 and that to complete all the other steps necessary to make a usable weapon could take another year or more. Israel says that if Iran's programme went very smoothly, it could have a bomb by 2009. Mr ElBaradei, who makes no secret of his belief that it would be “crazy” to launch a pre-emptive attack on Iran, says an Iranian bomb, if that is what Iran wants, is between three and eight years away.

Reasons for wanting the bomb

So what if Iran got the bomb? Wouldn't its only purpose be to deter? Iran does after all have a history of being bullied and invaded. In the 19th century Britain and Russia played their “great game” on its territory. Britain and America engineered the coup that unseated an elected prime minister, Muhammad Mossadegh, in 1953. After Iraq's invasion in 1980 the United Nations did precious little to help Iran. And in 2002 Iran found itself listed as part of George Bush's “axis of evil”, at a time when America had just sent one army into neighbouring Afghanistan and prepared to send another into neighbouring Iraq.

All this—plus loose talk in Washington, DC, about “regime change” in Iran—may have convinced the country's leaders that Iran needs a bomb simply to make potential attackers think twice. But if Iran has reason to want a bomb, others have bigger reasons to fear it. Israel is foremost of these. Whereas Israel had good relations with the shah, Ayatollah Khomeini regarded the creation of the Jewish state as an unforgivable sin and said that all Muslims had a duty to reverse it.

On Israel, Iran has indeed shown less flexibility than the Palestinians themselves. It denounced Yasser Arafat's espousal of a two-state solution as a betrayal and it continues to arm and train groups such as Hamas, Islamic Jihad and Hizbullah that say they want to destroy Israel. During the reformist period, President Khatami softened Iran's stand, implying that it might respect whatever solution the Palestinians accepted, but Mr Ahmadinejad, in numerous Holocaust-denying speeches calling for or predicting Israel's eradication, has returned Iran noisily to the true faith.

Eyevine

Enrichment please

These pronouncements have led commentators in the West to ask whether Iran's president is a new Hitler with genocidal designs. But a close look shows them to be ambiguous. It is not clear, for example, whether he really doubts that the Holocaust occurred or merely why such an event should have been allowed to justify Israel's creation. In the blogosphere translators hold lively debates about whether he really did call for Israel to be “wiped off the map” or just “removed from the pages of time”, a phrase which some people seem to think sounds less fierce. In the mind of Mr Ahmadinejad, are Israel and its people to disappear in some violent event? Or is it merely the “Zionist regime” that is to come to an end—perhaps peacefully, after the Palestinian refugees have returned and decided by referendum?

If Israel is to disappear, will Iran be the agent of its destruction? It is hard to say: from time to time, Mr Ahmadinejad and other officials have said explicitly that Iran poses no threat to Israel. Last month the president said that it was the Lebanese and the Palestinians who had “pressed the countdown button for the destruction of the Zionist regime”. A week later the Speaker of the *majlis*, Gholam-Ali Haddad-Adel, said during a visit to Kuwait that Mr Ahmadinejad's comments did not mean that Iran intended to attack Israel, only that “the Zionist entity” was on a “natural course of disintegration”.

For all the ambiguity, such talk helps to sow fear in Israel and corresponding delight in Arab countries, where Mr Ahmadinejad may now be more popular than he is at home. To that extent it has been a rational instrument of foreign policy. Such talk may also stem from a rational domestic calculation: hurling dire threats against Israel in the Khomeini manner helps rekindle the revolutionary fire that was allowed to cool under the reformists.

As to whether Mr Ahmadinejad is a new Hitler, one point to note is that he is neither Iran's dictator nor the master of its nuclear programme, which comes under the supervision of the supreme leader. That may not be so very reassuring. It implies that even if Mr Ahmadinejad were to shut up, or lose his job, the nuclear danger will remain.

Since Israel does not admit to having nuclear weapons, its detailed thinking on nuclear matters is rarely ventilated in public. But most of those Israeli experts willing to talk rate the chances of an Iranian nuclear attack as low. Despite Mr Ahmadinejad, most consider Iran to be a rational state actor susceptible to deterrence.

Knowing that Israel already possesses a very large nuclear arsenal, Iran would have to be ready to sacrifice millions of its own people to destroy the Jewish state, unless it was sure that in a first strike it could destroy Israel's ability to strike back. That would be hard, given that Israel is reported to have put nuclear weapons at sea on submarines, and has built sophisticated anti-missile defences expressly to protect its second-strike power. Furthermore, if Iran did obtain nuclear weapons, America might be willing to offer Israel (and other allies in the region) additional reassurance by saying—for whatever such a promise can be worth—that it would regard a nuclear attack on its ally as an attack on itself.

The calculus of destruction

Nonetheless, Ehud Olmert, its prime minister, has said that Israel cannot live with a nuclear-armed Iran.Whatever its policymakers think, its people have been spooked by Mr Ahmadinejad. And the sheer disparity in size between the countries (Iran's population is more than ten times Israel's, and its land area 75 times as big) leads some Israelis to question whether stable deterrence is possible between them. Israelis are haunted by a remark of Ayatollah Rafsanjani's in 2001, musing that a single nuclear weapon could obliterate Israel, whereas Israel could “only damage” the world of Islam.

Could ordinary life in Israel continue under such a threat? Even if Iran did not use its bomb, might not possession of it embolden it to attack Israel by conventional means, either directly or by using its allies in Syria, Lebanon and the Palestinian territories? A further danger is that once Iran went nuclear, others in the region, such as Egypt, Syria, Saudi Arabia and Turkey, might feel compelled to follow. Hard as it would be for Israel to establish a deterrent balance with Iran, a cat's cradle of Middle Eastern nuclear face-offs would be an even darker nightmare.

Added together, these considerations might still tempt an Israeli government to try to knock out Iran's nuclear facilities before it can finish building a bomb. The Israelis have worked for years to obtain the weapons for such a strike, spending billions to procure long-range variants of the F15 and F16 fighter-bomber, for example. On the other hand, senior Israelis know that this would be fraught with danger.

Iran's nuclear targets are much further from Israel than was Iraq's Osiraq reactor, which Israeli aircraft destroyed in 1981. Most are more than 1,200km (750 miles) away, and Israel's aircraft would have to fly even farther to avoid Jordanian or Iraqi airspace. That, according to a study by Ephraim Kam of Israel's Institute for National Security Studies, would require refuelling on both the outward and return flights, adding to the danger of interception. Osiraq, moreover, was a single target. Since there would be many this time, the attacking force would have to be large. And to cause serious damage, the aircraft might have to attack more than once.

Even a successful strike would not be the end of the story. For as the IAEA's Mr ElBaradei keeps saying, “you can't bomb knowledge.” Iran would be likely not only to retaliate with its long-range rockets but also to begin at once to rebuild its nuclear capability, just as Iraq did with extra urgency after Israel's destruction of Osiraq. That might not take long, says Mr Kam: Iran has its own nuclear raw material and already possesses much of the relevant knowledge and technology. Having spent only three years building Natanz from scratch, it could probably rebuild it much faster with the experience it has gleaned.

More worrying still is the possibility that Iran has secret nuclear sites outsiders do not know about: the existence of Arak and Natanz, remember, was not discovered until fairly recently. That could render an

attack on the known ones pointless. And Mr Kam is surely right that an Israeli strike might unite Iran's people behind the regime and its nuclear aspirations.

Another alternative for Israel might be to attack Iran in order to start a sequence of events in which America eventually joins the fray. The Americans, naturally, would find the military job much easier than Israel. The Americans have a motive, too: not fear of annihilation, but fear that a nuclear-armed Iran would knock a hole in what is left of the non-proliferation regime and challenge American interests in the energy-rich Middle East. After Iraq, however, no American president could doubt that such an attack would deepen Muslim hatred of America. And Iran is not without means of retaliation, even against the superpower. It could strike America's already hard-pressed forces in Iraq, direct terrorism at America's friends or disrupt tanker traffic through the Persian Gulf, so causing mayhem in the energy markets.

That is why American and Israeli politicians alike, while refusing to take the threat of military action “off the table”, are probably being completely honest when they insist that force is a last resort and that they would prefer to stop Iran by means of diplomacy sharpened by economic sanctions. But can sanctions do the job, and can they do it in time?

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The big squeeze

Jul 19th 2007
From The Economist print edition

But sanctions are not yet painful enough to change Iran's nuclear policy

Get article background

"I PRAY to God that I will never know about economics," President Ahmadinejad once said when questioned about apparent contradictions in his economic policy. The Lord appears to have answered his prayer. On his watch, the world oil price has soared from $62 a barrel when he was elected in June 2005 to $72 a barrel in recent weeks. Iran, which has a young, well-educated workforce, along with the world's second-largest reserves of both oil and gas, should be on a roll. Instead the economy is struggling. Is this a weakness the world can use to dissuade Iran from its nuclear ambitions?

Since almost all official economic statistics are suspect, measuring the performance of the economy is hard. But Afshin Molavi, an Iran-watcher at the New America Foundation in Washington, DC, calls slow economic decline "the untold story of the Iranian revolution". The economy is showing respectable growth of about 5%. But it is recording high and rising unemployment and inflation. The government puts unemployment at around 10% but private economists think it is twice as high—and that many of those with jobs have to take second ones to make ends meet. Mr Ahmadinejad's government claims to have reduced the rate of inflation. In fact it has almost certainly gone up: guesstimates by foreign embassies in Tehran put it as high as 25%. Meanwhile, foreign investment is puny—and falling (see chart 2).

One reason for these economic failures is the economic punishment America has meted out since 1979, and which it has been tightening ever since. These sanctions prevent American companies from helping Iran to develop its oil resources, block most Iranian exports to the United States and restrict certain Iranian imports from there. American financial sanctions also hamper Iranian banking (foreign visitors cannot use credit cards and must stuff their suitcases with dollars).

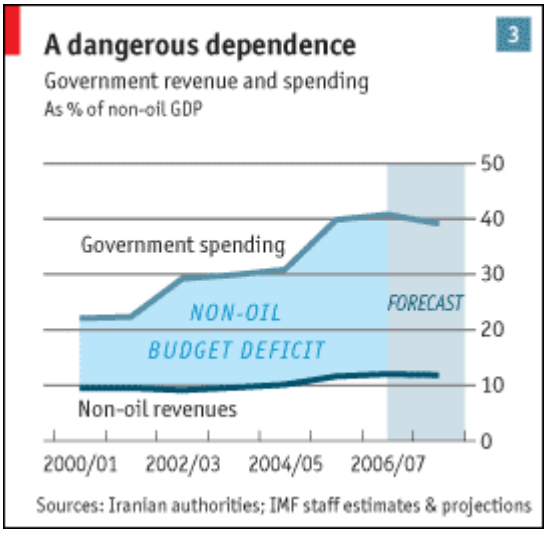
The price of economic ignorance

But there are two bigger reasons for Iran's underperformance. One is the lopsided structure of an oil-based economy in which a corruption-riddled public sector dwarfs private business. The other is incompetent economic management, especially by Mr Ahmadinejad.

Oil revenues bring in some 80% of export earnings, but even with a high world oil price the government finds it hard to pay its bills. Tough buy-back terms have deterred foreign investment in the oilfields and hampered production: a quarter of a century after the revolution, Iran is pumping only two-thirds as much oil as before. Meanwhile the government operates a vast, price-distorting system of subsidies for food, energy, housing, bank credit and much else. According to the IMF, energy subsidies alone reached 17.5% of GDP in 2005-06, and total subsidies amounted to 25% of GDP. A Consumer and Producer Protection Organisation keeps price controls on cereals, sugar, baby milk, fertilisers and pharmaceuticals, paper and agricultural machinery. This edifice of subsidies places huge demands on public spending and would collapse if it were not for the oil revenues (see chart 3).

Among the maddest of the subsidies is that on petrol. Even after a recent 25% price hike it is still the cheapest in the world, at 11 American cents a litre. That has encouraged an annual 10% increase in consumption, plus impossible traffic

and choking pollution in all of Iran's cities.



Selling petrol so cheaply is hardly an incentive for domestic refiners to raise production, so Iran has to import more than 40% of its petrol and other refined products. Much of this is smuggled back out (allegedly by the Revolutionary Guards) to be sold at a higher price. In short, Iran spends a fortune subsidising cheap petrol not only at home but also for consumers in neighbouring countries, wasting money it could otherwise have spent on increasing its flagging oil production. The government's decision last month to introduce rationing provoked violent disturbances. Since many Iranians use private cars to top up meagre incomes by becoming unofficial taxi-drivers, the consequences of this measure will be widely felt.

The IMF calls Iran's economy “state-dominated”. And how. Revolution and eight years of war have made for vast government. In most sectors state-owned companies or the opaque quasi-state foundations known as *bonyads* crowd out private businesses. Agriculture, internal trade and distribution are mostly in private hands. Even so, estimates of how much of the economy the government controls range between 65% and 80%.

Now there is talk of large-scale privatisation to attract investment and improve productivity. Some privatisation has even taken place, though it often entails little more than shuffling assets from one state sector to another. In theory, the pace of privatisation should pick up, thanks to a new constitutional amendment that envisages moving all but 25 state-owned companies into private ownership within eight to ten years (though the government will keep a 20% stake). Ayatollah Khamenei, the supreme leader, was a critic of nationalisation in the 1980s and is said to be enthusiastic about the change. The impediment will not be an absence of political will at the top but the hesitation of investors.

Iran's rigid labour laws will make it hard for new owners to squeeze any profits out of the bloated companies coming to market. Investors may also fear that those who owned these firms before nationalisation will want their assets back; and wonder who, in the absence of an established pro-business political party, can protect them from future arbitrary interventions by the state. The likely upshot is that a fair amount of privatisation will take place, but not at prices that will rescue the public finances, and not in a manner that will do much to boost productivity.

The prospects for serious reform of the economy have been dented further by Mr Ahmadinejad's erratic management of it. In some ways President Khatami left him a decent economic legacy. The reformist period saw a dose of market-oriented liberalisation, a currency reform that moved the rial to a managed float and the passage of liberal laws governing foreign investment. By 2004 many analysts felt that the economy was heading in the right direction, provided that something could be done to reduce energy subsidies, shrink the size of the state and tackle corruption. But although Mr Ahmadinejad campaigned on a platform of economic reform, he has instead caused immense harm by an unpredictable, populist and often dotty (“heterodox”, say his kinder critics) approach to policymaking.

His idea of privatisation, for example, has so far appeared to consist of giving “justice shares” to millions of citizens, without specifying how the value of these securities is to be determined. Local investors get discouraged when the president seems actively hostile to the very notion of a stockmarket: during his election campaign Mr Ahmadinejad's denunciation of “speculators” sent share prices tumbling. It is no surprise that many businessmen prefer to move their money offshore. Dubai is a favourite destination: Indian estate agents there are said to be learning Farsi, the better to sell apartments to rich Iranians seeking a haven for their wealth.

Iberpress

Tucking in, but with no thanks to Ahmadinejad

The president's behaviour has maddened critics and alienated former friends. He tours far-flung provinces to announce unaffordable spending plans, apparently on the spur of the moment. Some Iranians have benefited from his handouts and from the cheap loans he has ordered the banks to offer. But he has sprung expensive surprises on his country, ranging from cancelling daylight-saving time to an abrupt increase in the minimum wage (which had to be scaled back when it caused a leap in unemployment).

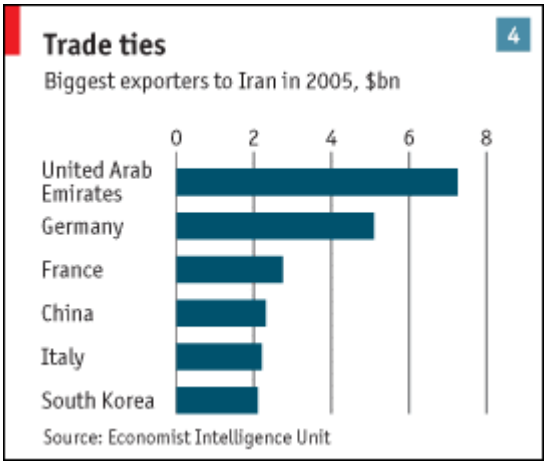
The president has also wrought havoc inside the economically important Management and Planning Organisation by replacing experienced technocrats with friends from his Revolutionary Guards days. Two months ago he astonished the central bank by ordering banks to slash interest rates below the rate of inflation. Some Iranian economists think this was a favour to the Revolutionary Guards, who have borrowed heavily to expand their commercial activities since his election.

Having promised to root out corruption and “put the oil money on everyone's dinner table”, Mr Ahmadinejad seems destined to fail. Indeed, his mounting economic woes at home may help to explain the attention he has devoted to the nuclear confrontation with the West and threats against Israel. But hard-pressed Iranian workers and consumers have listened to nearly three decades of revolutionary slogans and are not easily distracted from worries about jobs, rents and inflation.

Ask a passer-by in Tehran about Palestine and he will express his sympathy for the put-upon Palestinians—before volunteering that Palestine is a problem for the Arabs to sort out and that Iran has more pressing troubles of its own. And so it does. Every year some 800,000 young people join the labour market, and by some accounts only half of them can find jobs. Not surprisingly the country faces a brain drain: an estimated 150,000 university graduates emigrate every year.

Iran, in short, has some serious economic troubles. Might a few well-aimed kicks persuade the regime to give up its nuclear plans? In themselves, the two sanctions resolutions passed so far by the Security Council do not amount to much: they mainly ban trade in some nuclear and military equipment. Their psychological impact on would-be traders and investors is another matter. And combined with the financial squeeze America is applying separately, the result is genuinely painful.

America is using its heft in the world's financial system to do some effective bullying. In 2005 President Bush issued an order authorising the Treasury and State Department to target “key nodes” of Iran's WMD and missile-proliferation networks, including their suppliers and financiers. Since a firm or entity that is designated under this order can be denied access to American financial and commercial systems, this makes for a potent weapon. For example, America has accused one Iranian bank, Bank Sepah, of providing financial services to Iran's missile programme and another, Bank Saderat, of providing funds for Lebanon's Hizbullah, which is treated as a terrorist organisation in America. The banks deny the allegations, but have found themselves isolated.



The fate of these two banks has not gone unnoticed by financial

institutions generally. America's Treasury Department says it is working with more than 40 banks around the world to “discuss the risks” of doing business with Iran and to identify customers “who could harm their reputations and business”. Since in a country such as Iran it is hard to know exactly who your ultimate customer is, this has banks' compliance officers running scared.

It hurts, but not enough

The Treasury Department boasts that UBS has cut off all dealings with Iran, that Credit Suisse and HSBC have reduced their exposure, and that other banks are refusing to issue letters of credit. Government export-credit programmes from Germany, France and Japan are said to have fallen sharply. Iran has responded by moving out of dollars, and many foreign banks that have cut off business in dollars continue to conduct transactions in other currencies. But the Treasury Department is now gunning for them too.

So are sanctions “working”? The punishment so far, and the fear of more to come, has scared off foreign investors and pushed up the risk, cost and inconvenience of doing business in Iran. One notable example was last year's decision by a Japanese energy group, Inpex, to abandon plans to invest $2 billion in developing the Azadegan oilfield. Raising foreign money for big infrastructure projects is becoming harder, and those European banks still operating in Iran admit privately that their business is drying up. Although some big foreign firms continue to come in, attracted not least by the prospect of a big, undeveloped market devoid of American competitors, many others have either gone home or left behind skeleton offices in the care of local employees.

Nonetheless, it is not clear that sanctions are even close to imposing the sort of pain needed to alter the government's nuclear behaviour. They have pushed down living standards, but war and revolution have taught Iranians how to muddle through. An economy like Iran's, dominated by the government budget, is better able than most to take the travails of the private sector in its stride. And since energy exports make up almost half the government's revenues, high world prices (kept high in part by the tension over Iran) have compensated nicely for much of the damage sanctions have inflicted. Besides, many powerful Iranians prosper through their control of a relatively closed economy. The openness the world proffers as an “incentive” to give up the bomb strikes at some of this group's vested interests.

A big fall in the world oil price, or sanctions aimed directly at Iran's imports of petrol or exports of oil, would have a devastating impact on its economy. Some American congressmen are talking about a ban on importing petrol to Iran, but that would be very hard to enforce. A fall in the world oil price looks unlikely, and if Iran's oil was stopped from reaching the market prices would rise higher still (except in the improbable event of Saudi Arabia pumping enough extra to fill the gap).

In the longer run, Iran faces a different sort of vulnerability. It is finding it hard to acquire the foreign technology and capital it needs in order to boost production of its fast-depleting oilfields and realise its vast potential as an exporter of natural gas. Without this investment, all of Iran's big plans for a prosperous energy-fired future would be put in jeopardy. But Iran still has a few years to sort this out, whereas its mastery of uranium enrichment may be only a matter of months away.

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Only engage

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From The Economist print edition

The case for a “grand bargain”

Get article background

IF A military attack looks too dangerous and sanctions will not bring Iran to its knees, must the world accept that the Islamic Republic will soon have a bomb? Maybe. Plenty of governments in the Middle East are already working out how best to prepare for life alongside a nuclear-armed Iran. But what if sanctions and the threat of force were combined with more positive incentives for Iran, such as security guarantees and normal relations with the United States? Might not a beleaguered regime that was offered some such “grand bargain” see it as an honourable way to give up its nuclear plans?

Eyevine

Maybe we should talk

That is the thinking of those who say the mistake of the Bush administration has been to confront Iran instead of engaging it. Four years ago Iran gave tantalising signs of wanting to end the long confrontation. The superpower's rapid disposal of the Taliban regime in Afghanistan after September 11th 2001 and its preparations to invade Iraq had made it look like a formidable enemy. In 2003 Iran is reported quietly to have offered to open broad negotiations with America on all outstanding issues, including nuclear weapons and Israel. But for various reasons—mainly, say some, the hubris of America's own neoconservatives—this opportunity was missed. And by the time America had run into serious trouble inside Iraq two years later, Iran's mood had changed.

Since President Ahmadinejad's election, Iran has come to be less scared of America. The superpower's overstretched armies in Afghanistan and Iraq now look more like hostages than menacing invaders. Although the Bush administration already blames Iran for many of its woes in Iraq, it knows the Iranians would and could inflict even more damage on American forces there if America were to bomb Iran. Other American reverses elsewhere in the region have no doubt added to Iran's self-confidence. The regime portrays Israel's war against Hizbullah in Lebanon last summer—and Hamas's success last month in wresting the Gaza Strip from Fatah—as a victory for its own proxies and a defeat for America's.

Here, though, is a puzzle. If an Iran brimming with self-confidence is no longer afraid of America, why did it decide to take part at the end of May in the first formal high-level talks it has held with the United States since the American embassy hostages left Tehran in January 1981? To judge from the defensiveness on display at Tehran's Friday prayers before the meeting, this about-turn was a highly sensitive one, controversial with the regime's hardliners and difficult to explain to its supporters after all the years spitting defiance at the Great Satan.

The explanation favoured by Western diplomats is that the Iranians feel more vulnerable than they admit. Though buoyed up after last summer's Lebanon war, the regime's fortunes have since declined.

There was that blow to President Ahmadinejad's supporters in last December's municipal elections. President Bush, contrary to expectations, reinforced American forces in Iraq and the Persian Gulf instead of reducing them. American forces in Iraq have arrested five Revolutionary Guards there (the Iranians say they were diplomats). Russia and China surprised Iran by withdrawing their protection in the Security Council and agreeing to sanctions.

In short, say Western diplomats, the pressure is working. Yet it may be working in both directions: the Bush administration, after all, has simultaneously performed a U-turn of its own by talking to Iran after a long period of refusing contact. At present both sides are saving face by stressing that Iraq is the only subject on the table. America's official line is that there will be no widening of the discussion unless Iran suspends uranium enrichment and complies with the Security Council's other demands. However, many loud voices in Washington, DC, and a few softer ones in Tehran, see this as an opportunity to move to a broader negotiation that could culminate in an historic reconciliation between the old enemies.

Could it happen? America and Iran have some common interests. Both claim to want a stable and united Iraq and both support its present government. Neither wants the Taliban back in charge of Afghanistan (though Iran is reported to be arming some Taliban fighters). As Shias, the Iranians are as hostile as America is to al-Qaeda, whose jihadists in Iraq have murdered thousands of Shias and bombed their holiest shrines. But on the other side of the ledger are areas where the interests of the two countries collide.

A quarter-century of bad blood

America and Iran support opposite sides in the stand-off in Lebanon. Iran says it wants to destroy Israel, or at least see it disappear. America accuses Iran of seeking an atomic bomb which Mr Bush says he cannot accept. And on top of all this there has been a quarter of a century of bad blood. To Americans, Iranians are the fanatical revolutionaries who kept America's embassy in Tehran hostage for 444 days. To Iranians, Americans are the scheming imperialists who deposed their elected prime minister in 1953 and re-installed a repressive shah.

Reaching a grand bargain in these circumstances is difficult but not impossible. Oddly, America's misadventure in Iraq could turn out to be the catalyst. In the 1970s America reached out to China partly to cover its withdrawal from an unsuccessful war in Vietnam. What, though, if a grand bargain remains elusive? Then the two countries may opt for a partial agreement, or let their confrontation continue at the same level, or see it deteriorate and become even more dangerous.

There are two other outcomes, both of them devoutly wished for by some Americans, that seem unlikely to transpire. One is that the right mixture of external political and economic pressures will force Iran's regime simply to capitulate and agree to the world's demands, at least on the nuclear front. The other is that the regime's internal economic failures and declining popularity will cause it to be overthrown in a popular uprising.

What makes a simple capitulation unlikely is not Iran's external strength but its domestic weakness. The last risk a prickly and unpopular revolutionary regime is willing to run is a public humiliation. To make Iran abandon its nuclear aspirations will therefore require not only pressure but also a means of helping the leadership save face and point to some sort of success. That is especially true if Mr Chubin at the Geneva Centre for Security Policy is right that the regime's main motivation for its nuclear programme is to shore up its internal legitimacy.

The Bush administration seems at last to have understood this. That is why it signed up to the incentives offered to Iran in June last year by the other members of the Security Council, plus Germany, in return for its nuclear compliance. These included the prospect of trade agreements with the European Union; Iran's acceptance into the World Trade Organisation; the easing of American sanctions; the sale to Iran of a light-water reactor and guarantees of nuclear fuel; EU help to modernise Iran's oil and gas industries; support for a WMD-free zone in the Middle East; and the possibility of Iran being allowed to enrich uranium after all if it could show that this was for exclusively peaceful purposes. Iran turned this offer down. But it remains on the table and could be improved.

If a straight capitulation is unlikely, so is an uprising against the regime. Iran, it is true, has a proven capacity to surprise. The shah was toppled only months after the then President Jimmy Carter described Iran as “an island of stability” in a volatile region. But although Iranians grumble endlessly about their government and its failures, there is precious little evidence of a popular counter-revolution in the

making. Most of the regime's internal critics seem to pin their hopes on gradual change emerging as it did in the Soviet Union, from inside the system. The Soviet system, however, was based on a secular ideology. When such doctrines fail, they can be junked relatively easily. But how does a system that claims to be rooted in the eternal verities of revealed religion modernise itself from within?

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The verdict of Qom

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Theory and practice

Get article background

THEY call Qom “the Shia Vatican”. President Ahmadinejad is reported to have said that when Islam ruled the world Qom would be its capital. Rome need not worry: Qom will never compete for its tourists. At first glance, despite the imposing golden cupola of the Sayyeda Fatima shrine, this desert city some 100km (60 miles) from Tehran is a backwater, devoid of grace and greenery. Its seminaries, however, are home to perhaps 60,000 clerical students. And the broad highway that slices from Tehran to Qom through a moonscape of scrubby desert and salt lakes is a clue to the city's importance. It was from Qom that Ayatollah Khomeini began to denounce the shah, and it was in Qom that he set up his revolutionary government after returning from exile in France. This seems the right place to see whether the system he created can be changed from within.

Eyevine

Sceptical, after their fashion

Why suppose that Qom of all places might become an agent of change? Conventional wisdom from afar saw the success of Khomeini's revolution as Qom's victory too. Didn't the revolution stop modernisation in its tracks and jerk Iran back to the Middle Ages, delivering political power to turbaned clerics in thrall to an unfathomable theology? And does it not follow that the turbaned clerics of Qom have a strong belief, buttressed by a strong vested interest, in preserving the theocratic principles of that revolution?

As a matter of fact, no. Khomeini's central idea, the doctrine of *velayat-e faqih*, gives the Islamic Republic its theological underpinning. This holds that until the appearance of the Shias' “hidden imam” (of which more below) society should be governed by a supreme leader, the clerical judge best qualified to interpret God's will and the meaning of Islamic law. It is this doctrine that makes Ayatollah Khamenei supreme leader and all others subordinate to him. But Qom itself has never felt completely at ease either with Ayatollah Khomeini's idea or Ayatollah Khamenei's succession. Indeed, many of the most revered clerical minds in Qom see this doctrine, and especially the way it has been implemented since Khomeini's death, as negating their tradition.

Politics and the hidden imam

To understand why requires a digression into theology. The quarrel between Sunnis and Shias is about succession. Shias believe that the last rightful imam to follow Muhammad was his son-in-law Ali, but that he and his ten successors were murdered by Sunni caliphs. The twelfth imam therefore went into hiding, promising not to return until the end of time. Most Shia clerics have long held that during this period of “occultation” there can be no lawful political authority. Until the emergence of the hidden imam, politics must be inherently invalid and men of religion should be careful not to implicate themselves in it.

Velayat-e faqih seems to turn this long-standing assumption upside down, especially when it is interpreted as implying that the *faqih* derives his authority from God and is not answerable to the people. Many of Qom's clerics flatly repudiate this idea. They say that there exists no blueprint for government during the time of occultation, and that nobody has special authority to guide society during this period.

It is not clear exactly how the theological arguments of Qom travel from the seminary into Iran's politics, but they do. President Khatami's reform movement drew heavily on the views of clerics, some of whom were astonishingly outspoken. One, Hojatoleslam Mohsen Kadivar, began to argue in the 1990s that Iran could not have clerical rule and claim to be a democracy at the same time. He was jailed for saying that the freedom Iranians had sought through their revolution was being replaced by a new clerical despotism. From house arrest, Grand Ayatollah Ali Hossein Montazeri, a revered cleric who was Khomeini's designated successor before complaining too much about the mass execution of political prisoners after the war with Iraq, supported Hojatoleslam Kadivar. “What the conservative leaders are practising today is not Islam, and I oppose it,” he said.

Such criticisms are especially damaging to the present supreme leader. Ayatollah Khomeini was not just the father of the revolution but also a charismatic scholar of immense learning. In the eyes of Qom, Ayatollah Khamenei is by contrast a clerical lightweight (but effective politician) whom Khomeini prematurely fast-tracked to ayatollahdom when he was looking for a successor. What was acceptable in the charismatic is not necessarily acceptable in the apparatchik.

Although the government has tried to stifle dissent, Qom remains an argumentative place, continuing to exert a potentially disruptive influence on politics. Even during the present crackdown, the visitor to its seminaries quickly encounters a spectrum of clerical opinions on everything from *velayat-e faqih* to the wearing of the *hijab* to relations with Israel and America. “Qom's seminary is like an ocean in which you can find anything you desire,” Hojatoleslam Kadivar told a recent interviewer from *Asharq Al-Awsat*, a pan-Arab daily.

To sample the range of opinion, meet two clerics from opposite ends of this spectrum. Hojatoleslam Fazel Maybodi teaches at Qom's Mofid University, a traditionally liberal seminary. A jolly, grey-bearded cleric proud of his smattering of English phrases, he explains at once that although Qom is not a place for political decision-making—that is the job of the government—“theoretical” debate about Islam's relationship with politics takes place freely. On *velayat-e faqih* he says that the views of the most senior ayatollahs are not uniform. For example, Ayatollah Sistani, a revered cleric based in Iraq but also widely admired in Iran, has approved Iraq's post-Saddam constitution. This gives ultimate authority to elected politicians rather than clerics. “I don't believe that all political ideas should come from within Islam,” says Hojatoleslam Maybodi. “Politics is an experimental, man-made activity and Islam should respect it.”

In Qom, unlike many parts of Iran, all the women wear full black *chadors*; around the town billboards with anti-Semitic motifs still advertise the recent exhibition of cartoons poking fun at the Holocaust. But liberal clerics like Hojatoleslam Maybodi are happy to dissent from the party line. He says it was “not correct at all” for Iran to have raised this issue: the genocide of the Jews was an ugly phenomenon and the number murdered was for historians to determine. As to whether Iran could ever accept the right of Israel to exist, Hojatoleslam Maybodi says the two countries could well make peace provided the Israelis and Palestinians reached an agreement. Both sides have their extremists, he admits, but “what's the problem with Muslims living next to Jews?”

The spirit of *ijtihad*—the idea that Islamic law can and should be reinterpreted to match the circumstances of the day—is strong in Shia Islam. Hojatoleslam Maybodi says bluntly that *sharia* law discriminates against women and should therefore change. He argues that the unequal treatment of women (such as their smaller claims on blood money or inheritance) stems from a time before women were economically active. As for the crackdown on “bad *hijab*”, Hojatoleslam Maybodi expresses a view often voiced by Iran's clerics. When the state uses coercion in the name of religion, it is in danger of turning the people away from Islam.

The views of individual clerics should not be given too much weight. If, as Hojatoleslam Kadivar boasts, Qom is an ocean, it is difficult at any particular moment to judge which way its tide is running. Many of the ayatollahs are arch-conservatives in social matters. Some were scandalised by Mr Ahmadinejad's suggestion that women should be allowed to watch football matches—an idea he had to withdraw.

So, at the other end of Qom's spectrum, meet the suspicious, unsmiling Hojatoleslam Mohsen Gharavian. He is a student of Ayatollah Mesbah Yazdi, the extreme hardliner said to be Mr Ahmadinejad's spiritual adviser. Ayatollah Yazdi and those who think like him have little regard for democracy and no

compunction about employing coercion if the people refuse to embrace piety voluntarily. “The prophets of God did not believe in pluralism,” he once said. “They believed that only one idea was right.”

And yet the views of Hojatoleslam Gharavian turn out to be more nuanced than his teacher's. Although he claims that *velayat-e faqih* is accepted unanimously in Iran by conservatives and liberals alike, he concedes that there are differences of opinion about the extent of the supreme leader's rightful authority. He agrees that it may be time to grant women equality in respect of blood money but wants cautiously to “wait and see” when it comes to the law on inheritance. He is unflinching on the compulsory wearing of the *hijab*: like gold, silver and jewels, he says, it is natural for society to want to keep women safe from the avarice of men.

He is implacable on Israel, too: it belongs to the Palestinians and its government should be in the hands of the Muslims, he says. But that does not mean that Jews cannot live there; and he concedes, when pushed, that if the Palestinians chose to make a gift (*hebeh*) of part of it for a Jewish state, that would be their affair.

Open to the world

Qom—or at least the idea of Qom—sums up many of the things the secular mind finds frightening about Iran's revolution. From here the clerics' view of the righteous way is projected not only throughout Iran by the machinery of the state but also into the world beyond by the power of the internet. Behind one unprepossessing façade you will, for example, find the Aalulbayt “Global Information Centre”. Affiliated to Ayatollah Sistani, this outfit operates four global websites in some 30 languages, pumping out personal, spiritual and political teaching to the faithful in scores of countries. Its director, Hojatoleslam Lajarvadi, boasts that Qom hosts more websites per head of population than anywhere else in Iran.

All this helps to explain how it is possible from Israel or America to see Qom as the nerve centre of global fundamentalism. But Qom is not homogenous. Besides, it imports ideas as well as exporting them. Mofid University, for example, holds regular human-rights seminars in which Jews and Christians from outside Iran take part. Its students read books on Western philosophy, and many travel to America and Britain to study. Moreover, Qom is wired: every student, says Hojatoleslam Maybodi, has access to the internet. That may be one reason why, as with young people the world over, the study of English has lately become a preoccupation.

Above all, it is a mistake to associate Qom with the messianic views of Mr Ahmadinejad and his coterie. A lot of senior clerics are appalled by the new president's frequent claims that the appearance of the hidden imam is imminent and its timing somehow connected with the political zeal of the present government. Their distaste for Mr Ahmadinejad helps explain why, when he endorsed a slate of candidates affiliated to Ayatollah Yazdi for election to the Assembly of Experts last December, they were roundly defeated by candidates associated with his centrist rival, Ayatollah Rafsanjani.

Well before the election of Mr Ahmadinejad, Qom was home to clerics who said the revolution had taken a wrong turn, creating a new despotism and turning people off religion by using state power to ram it down their throats. Even in the Shia Vatican, out in the desert, Iran's beleaguered revolutionaries are finding it hard to keep dangerous ideas at bay.

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Khomeini's children

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Not happy, but probably not eager to become Westernised either

Get article background

AN EXOTIC country that is viewed mainly through the filter of its foreign policy and its televised public rituals is liable to be misunderstood. So it is with America in the eyes of Iranians and with Iran in the eyes of Americans.

Eyevine

Not talking about a revolution

Iran took an American embassy hostage. It may have had a hand in the bombing of the American marine barracks in Lebanon in 1983 and it stands accused now of helping to kill American soldiers in Iraq. It is not surprising that many Americans consider Iran a bitter foe.

Nor is it surprising that Iranians return the favour. America organised the coup against Mossadegh, supported the shah, helped Saddam in the Iran-Iraq war, invaded two of Iran's neighbours and imposes sanctions on Iran. The Iranian regime considers America an implacable foe and routinely denounces it, in political speeches and organised rituals such as those fiery Friday prayers, as the Great Satan or “the Global Arrogance”.

And yet, as this special report has already noted, many of the smartly dressed young people of Tehran seem quite unmoved (some are amused) by the official hate-mongering. They do not admire George Bush. But to judge by dress, behaviour, viewing and consumption habits—and even more by the regime's terror of a creeping “Westoxification”—they do admire at least some of America's ways.

Not surprisingly, the attitudes of the young are a source of anxiety to the revolution's managers. Young people and especially university students played a significant part in bringing down the shah, and now there are many more of them. The population has doubled since 1979, which means that two out of three Iranians are under the age of 30 and fewer than one in three can remember the revolution. Young Iranians are also much better educated these days: literacy is near-universal and the student population has soared. The demographic surge has been accompanied by rapid urbanisation: seven out of ten Iranians now live in cities.

The young suffer disproportionately from the regime's failures. In 2006, by the government's own reckoning, nearly every other Iranian between the ages of 25 and 29 was unemployed. A lack of jobs is no doubt one reason for the prevalence of heroin addiction and other social ills. In this nominally austere society, alcohol is consumed widely, even though it is illegal for Muslims. Prostitution is widespread.

Will the disaffection of the young bring down the regime? That is what those outsiders who see the Islamic Republic as a crude despotism lacking popular support sincerely hope. But how many Iranians

see their regime that way? It seems highly likely that if the government continues to thwart the aspirations of young voters, they will punish it at the next election. Yet it would be a terrible mistake to assume that every youthful, fast-urbanising country facing economic hardship must be eager to throw off its regime and embrace Western values.

Iran remains a strongly religious society. Though the proportion of city-dwellers has soared, they are different from the atomised individualists of Europe or North America: the extended family and traditional social networks have survived even in teeming Tehran. And though the government is not popular, most Iranians seem to accept its right to govern. One sign that millions continue to have faith in the country's institutions is that more than 60% of eligible voters turned out in the presidential elections of 2005, at a time of deep cynicism following the blocking of President Khatami's political reforms.

The difference a year makes

A year ago an American firm, Zogby International, polled Iranians on a range of issues by phoning in from abroad. At that time 41% of those polled said the country's top priority should be the economy, 27% thought developing nuclear weapons was more important and only 23% put more freedom at the top of their list. Those who wanted Iran to become more religious and conservative (36%) outnumbered those who wanted it to become more secular and liberal (31%). However, in a similar poll last month by “Terror Free Tomorrow”, an American think-tank, 88% saw the economy as the top priority, compared with 29% who listed nuclear weapons. And 79% said they would prefer a democratic system in which all leaders, including the supreme leader, were elected by a direct popular vote.

Given that Iranians are naturally wary about what they tell strangers on the phone, these are striking results. They underline the regime's economic vulnerability. What they do not prove is that Iran is ripe for counter-revolution.

President Ahmadinejad may not be much of an economist, but he is a shrewd politician. He may not appeal to the gilded youth of north Tehran, but he was able in 2005 to scoop up the votes of the traditional lower and middle classes. Many of his policies, such as cheap home loans for new couples, are aimed at consolidating the support of this group. For millions of young Iranians in the Revolutionary Guards, the Basij militia or government service, the revolution remains an economic provider as well as a moral compass.

For how long? Iranians gave the reformists two terms before deciding that they could not deliver. If President Ahmadinejad fails them, he too will eventually have to go—and his failure may inflict collateral damage on the supreme leader and the conservative establishment that backed him. In the longer run, Iranians may conclude that the whole theocratic system might prove unworkable. But one thing that could help to save it would be a military attack by the West. Young Iranians may grumble, wear jeans, drink Pepsi and watch football. But they are nationalists whose instinct in the face of external attack will surely be to rally around their leaders, no matter how flawed.

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Business in Africa

Looming difficulties

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Stephanie Hanes

Can Africa's clothing industry survive Asian competition?

AT THE Shinning Century factory in Maseru, the capital of Africa's tiny mountain kingdom of Lesotho, an army of 1,500 workers, most of them women, labour over sewing machines and large piles of fabric. They make T-shirts and fleeces to be sold in American shops such as Gap and Old Navy. Lesotho, entirely surrounded by South Africa, also makes jeans for brands such as Levi Strauss.

Textiles is the only industry to speak of in this impoverished country of 1.8m people. It employs over 45,000 of them. Lesotho used to live off providing labour for South African mines; now it is Africa's biggest exporter of garments to America. It sent America $385m of clothes last year. Like Mauritius, Madagascar, Kenya and other African countries, Lesotho sees clothing as the way to develop, diversify and create jobs. But can sub-Saharan Africa's garment trade survive competition from Asia?

Lesotho's modern textile industry was started in the late 1980s by foreign investors who wanted to avoid sanctions imposed on South Africa, but were keen to use good South African roads and ports to export their products. Today most of Lesotho's 40 or so garment factories are Taiwanese. Jennifer Chen, the Taiwanese owner of Shinning Century, settled in the country in 1989. She now speaks Sotho and has become a citizen of the country.

Outside South Africa, where it has a solid base, Africa's garment industry relies heavily on preferential market access. It really took off only after America adopted the African Growth and Opportunity Act (AGOA) in 2000. The act gives exports from some African countries duty- and quota-free access to the American market. This has been a lifeline for apparel made in Africa, $1.3 billion of which was sold to America in 2006. This week African and American ministers got together in Ghana for the annual AGOA Forum.

The industry was badly hit when the Multi-Fibre Arrangement, which restricted exports of Chinese clothes to rich countries, ended in January 2005. At the time there were also doubts over how long Africa would be able to retain duty-free access under AGOA for clothes made of fabric imported from outside the region. In Lesotho the strengthening of the local currency—pegged to the South African rand—made things even worse. Several factories closed and 10,000 jobs were lost. Things are now looking up again, with new restrictions on Chinese imports, tax breaks from the government and a push to attract fresh foreign investment. New investors from South Africa and mainland China have set up shop in Lesotho, expanding the range of clothing available.

But the future is uncertain. American, European and South African quotas on Chinese exports are likely to be abolished within the next couple of years. The World Trade Organisation has also decided that rich countries should extend preferential access to all poor countries, not just African ones, by 2008. And Lesotho relies heavily on America, which buys about 85% of its production, because Europe requires countries to source fabric locally in order to qualify for preferential access. By 2012 AGOA will demand the same. Lesotho has only one textile mill, which makes denim. So it imports a lot of fabric, mainly from

China.

What can Africa do to maintain its textile industry? Mrs Chen points out that establishing more textile mills in Lesotho would greatly help to reduce lead times and transport costs. Madagascar and Mauritius have already moved up the supply chain and now produce some of their own yarn and fabric. Better co-operation between African countries could also boost supplies of textiles within the region, without every country having to build textile mills. Andrew Salm of the ComMark Trust, an outfit financed by the British government's aid agency which works with Lesotho's textile industry, also believes that Africa could promote organic cotton, a premium product which commands higher prices. Swaziland, another tiny country bordering South Africa, is looking into growing organic cotton to sustain its own textile industry.

African producers also need to improve productivity. Attracted by cheap labour, investors from Mauritius have moved to Madagascar, and South African clothing companies have invested in Lesotho. Yet at around $100 a month, Lesotho's typical salaries are at least five times higher than those in Bangladesh, and two to three times higher than those in China.

Provided productivity can be increased, higher wages may not necessarily be a handicap. Lesotho wants to sell itself as an “ethical” destination to American and European retailers who want to avoid accusations that they use sweat shops. The country has adopted International Labour Organisation standards; its laws and practices are relatively decent; trade unions are allowed. Labour disputes are less frequent than they were a decade ago.

Helped by foreign donors, the industry has also launched a programme to fight HIV/AIDS, which according to ComMark affects at least one-third of textile workers—even higher than the national infection rate of 23%. The initiative, which offers prevention and free treatment, was launched in 2006 with Bono, an Irish rock star, and is sponsored by American buyers of clothes made in Lesotho, who are keen to burnish their corporate reputations.

To survive, says Thabo Mohaleroe of the Lesotho Textile Exporters Association, garment factories will also have to move upmarket from low-margin, mass-produced products. This will mean offering more sophisticated finishes on existing products such as T-shirts and jeans, and producing more complicated clothes. In the meantime, textiles in Lesotho—like elsewhere in Africa—will be sustained only by preferential treatment.

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Corporate scandals

Bush whacked

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From The Economist print edition

A mixed week in George Bush's war on errant businessmen

“THERE will not be a different ethical standard for corporate America than the standard that applies to everyone else. The honesty you expect in your small businesses, or in your workplaces, in your community or in your home, will be expected and enforced in every corporate suite in this country.” So said George Bush five years ago this month, as he signed into law the Sarbanes-Oxley Act.

Despite, or perhaps because of, criticisms from his opponents that he was too close to business, Mr Bush's administration may be remembered as America's most active in pursuing errant bosses. On July 13th it added to its list of successful convictions when Conrad Black, a Canadian-born newspaper baron, was found guilty on three counts of mail fraud and one of obstruction of justice. The crimes related to his reign—later described by an internal company inquiry as a “corporate kleptocracy”—at Hollinger International, the then owner of several newspapers.

Lord Black joins Dennis Kozlowski of Tyco, Bernie Ebbers of WorldCom, John Rigas of Adelphia, Joseph Nacchio of Qwest and Jeffrey Skilling of Enron on the roll-call of bosses found guilty since the president's declaration of war on corporate crime (only the death of Enron's Kenneth Lay prevented him from joining the list). Given the far tougher sentences for white-collar crime that have been imposed under Mr Bush, and barring a successful appeal, Lord Black could face a jail term of 35 years.

So it will have come as little consolation that the jury cleared him of nine other charges, including claims that he misused company assets to fund his lavish lifestyle. Some lawyers reckon the jury did a fine job of ignoring the lifestyle froth and focusing on the substantial charges. But others are not so sure. The jury was finely balanced, its members at one point telling the judge they were unable to reach a unanimous decision on some charges. John Heuston, the lead prosecutor in the trial of Messrs Lay and Skilling, now in private practice, says the outcome was a classic “compromise verdict”, in which jurors negotiate a mix of unanimous convictions and acquittals to break the impasse.

As some lawyers celebrate another victory for the government, others regard Lord Black's trial as further evidence that the Bush administration is pursuing bosses with the same cavalier attitude to justice and due process that it is often criticised for in other parts of the legal system. The government was condemned for abusing its prosecutorial powers on July 16th, for example, when charges against 13 employees of KPMG, an accounting firm, were thrown out by Judge Lewis Kaplan. Prosecutors had forced KPMG to stop paying the legal fees of its employees by threatening to bring charges that would probably have caused the firm to go out of business. The judge called the government's “deliberate interference” with the defendants' rights “outrageous and shocking” because it violated two basic constitutional values: the right to counsel and the right to fair criminal proceedings. The government is appealing against his decision.

Attention will now switch to San Francisco, where Gregory Reyes, a former chief executive of Brocade Communications, is the first boss to stand trial on charges relating to the backdating of employee share-options. This is seen as a test case for the dozens of other executives embroiled in the options-backdating scandal. Press reports suggest that the government is having trouble proving its case. The defence has been encouraged by the judge's decision to consider its motion to throw the case out, rather than handing it to the jury. Typically such motions get dismissed with barely a glance.

Whether the government's war on corporate crime has made the boardrooms of America more virtuous is much debated. Besides, passing laws may not be the way to get bosses to do the right thing. Even the best are capable of acts of monumental foolishness. Consider John Mackey, the boss of Whole Foods, a chain of high-end supermarkets. In the course of an antitrust inquiry into the firm's planned acquisition of Wild Oats, a rival chain, it emerged that for many years he posted comments online under the name “Rahodeb”, praising his firm and criticising Wild Oats.

Amusement may be the obvious response to such daft behaviour. But the Securities and Exchange Commission is now investigating, and on July 17th Whole Foods launched an internal inquiry. Mr Mackey has begged the firm's stakeholders to forgive him. Given the current prosecutorial climate, it will be no surprise if they do—but he ends up in court anyway.

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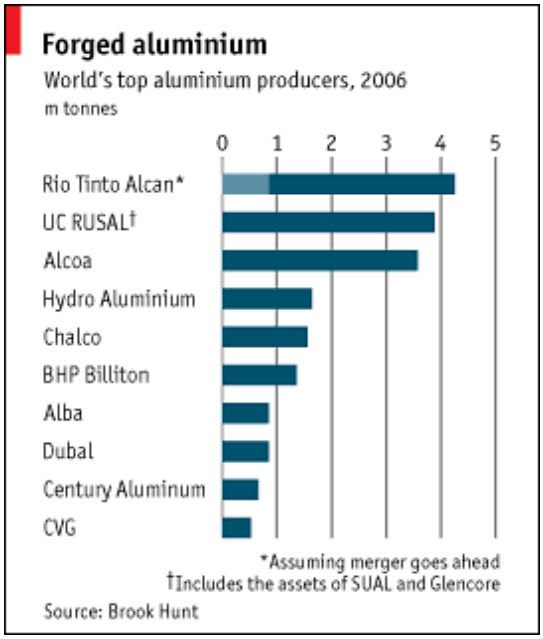
Aluminium

Gimme smelter

Jul 19th 2007
From The Economist print edition

Are more big deals ahead?



THE notion that aluminium is merely a dull, grey metal has taken something of a hammering lately. A dramatic string of mergers, bids and counterbids has enlivened an industry that is proving to be as malleable as its end product. On July 12th Rio Tinto, one of the world's biggest mining firms, comprehensively trumped Alcoa's hostile $27 billion offer for Alcan, a Canadian rival, by stumping up $38.1 billion in cash. The deal will make Rio Tinto the world's top aluminium producer (see chart), ahead of Russia's RUSAL, which was itself involved in a big merger in March. And the flurry of activity in the industry might even result in Alcoa itself being gobbled up. BHP Billiton, an Anglo-Australian mining giant sitting on a pile of money earned from high metal prices, is thought to be mulling a $40 billion bid for the American aluminium-maker.

What explains all this dealmaking? Tom Albanese, Rio Tinto's boss, is confident that the huge sum he is paying for Alcan is justified, in large part because of the situation in China. It is expected to consume 12.5m tonnes of aluminium this year out of a world total of 40m tonnes. But although Chinese demand has pushed up the aluminium price to twice its level of 18 months ago, the price has hovered around $2,700 a tonne for some months.

Where it will go next is the subject of much debate. Until a few years ago China was a net importer of aluminium. Since then both production and consumption have exploded to satisfy the demands of the expanding economy. But production outpaced consumption, making China a net exporter. Jim Lennon, an analyst with Macquarie Bank, points out that aluminium plants can be built far more quickly there than anywhere else in the world, and at about a quarter of the cost.

China is home to Chalco, one of the giants of the aluminium business, and to over a third of the world's smelters. But although plants can be built cheaply in China, production costs are among the highest in the world. China relies on expensive imported alumina, the refined version of bauxite, the ore from which aluminium is made. And smelting it uses vast amounts of energy, accounting for one-third of the costs in an average plant. The government has tried to rein in aluminium producers on the ground that they are hogging prized energy resources that it would prefer to divert to other parts of the economy. Last year a tax rebate on the export of aluminium ingots was eliminated, and then an export tax was imposed.

But China's policymakers may fail to stem the power drain. Ingot exports have slowed down in recent months but exports of semi-finished and finished aluminium products, which are much harder to track, may have filled the gap. Demand for aluminium grew by 23% in China in 2006 and is expected to expand by 30% this year. The government may try to intervene to prevent production from expanding commensurately; but it may not succeed.

Even so, many industry watchers believe that China will once again become a net importer of aluminium. On current trends world demand for the metal will reach 70m tonnes by 2020. But where will the extra supply come from? There are few places with the abundant cheap energy needed to make the stuff. Alcan is probably best placed to take advantage of growing demand, because a deal with Quebec, its home province, provides it with cheap, plentiful hydro-electric power. Hence its appeal to Rio Tinto.

What of BHP Billiton's supposed interest in Alcoa? Unlike Alcan, the American firm does not have access to bargain-priced power supplies. And along with its smelters and bauxite deposits, it has a raft of less tasty

downstream assets, such as a packaging business with pitiful margins. But BHP Billiton could team up with a private-equity buyer to offload the less desirable parts of Alcoa, and some analysts reckon that of all the potential suitors it is in the best position to extract savings from a deal. So it might still prove enticing, particularly if BHP Billiton shares Mr Albanese's cheerful forecast of growing demand for aluminium from another source. “Where goes China, India is likely to follow,” he says.

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Cigarettes

Third time lucky

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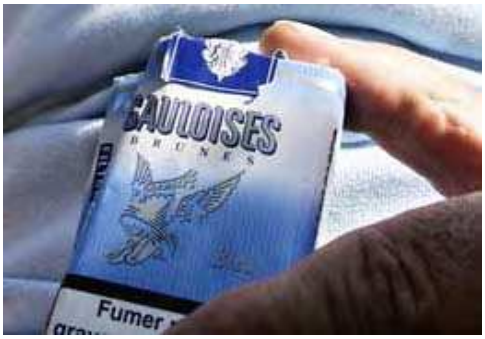
AFP



After a long campaign Imperial Tobacco finally pockets Altadis

FOR an also-ran in a reviled industry with a big share in declining markets, Altadis played hard to get. The Franco-Spanish maker of Gauloises and Gitanes cigarettes rejected a takeover offer by Britain's Imperial Tobacco once in March, again in April, and then started to talk to private-equity groups about a possible sale. But on July 18th Gareth Davis, Imperial's boss, seemed to have prevailed with a €16.2 billion ($22.4 billion) friendly bid for Altadis. “The two companies are a great strategic fit,” said a jubilant Mr Davis.

Altadis's bosses had changed their minds both to avoid a hostile bid and because a better offer had failed to materialise. CVC, a British private-equity firm, was ready to pay Altadis the same price as Imperial, but its bid would have been highly leveraged and would not have yielded any synergies. The merger with Imperial, in contrast, will bring an estimated €300m in annual cost savings in manufacturing, marketing and distribution. It will be financed with new debt and new equity.

America's Altria, the maker of Marlboro and Virginia Slims, and British American Tobacco (BAT), the market leaders, did not signal any interest in Altadis. Altria would have run into trouble with Europe's competition authorities, and BAT, the maker of Kent, Kool and Lucky Strike, says prices for big listed companies are too high. Its preferred targets are private firms, or former state monopolies in emerging economies such as Egypt or Turkey.

The combination of Altadis, based in Madrid, and Imperial, based in Bristol, will be a more comfortable number four in the industry than Imperial was on its own. Altria and BAT have market shares of 18% and 17% respectively. After its takeover of Gallaher, the British maker of Benson & Hedges and Silk Cut, Japan Tobacco, the number three, has 10% of the market; Imperial and Altadis will together have 5.5%.

The main weakness of the merged company will be its focus on developed countries, where people are smoking less because of campaigns by health authorities, curbs on advertising, high taxes and smoking bans in public places. Altadis is the market leader in Spain and Morocco, the second-biggest seller of cigarettes in France and is strong in Russia and Poland. Imperial's main markets are Germany and Britain. It owns Montecristo and Romeo y Julieta, two big cigar brands, as well as some valuable cigarette brands.

This will probably be the last big tobacco deal for a while. Industry insiders speculate that Altria might separate Philip Morris International (PMI), based in Switzerland, from Philip Morris USA. PMI might then be interested in buying Imperial to become the European leader. But it took Altria a while to spin off Kraft, its food business, so nobody expects anything to happen any time soon. In the longer term the big question for the industry is whether the fast-growing Chinese market, dominated by the CNTC, a state-run company, will open up. Western firms hope to make further inroads into it—but they may instead find themselves targets for the cash-rich Chinese.

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Alitalia

Down to earth with a bump

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The Italian government's plan to sell its stake in Alitalia fails to take off

AFP

A glimpse of Alitalia's future?

WHAT are your airline loyalty points worth? Alitalia's 3m MilleMiglia cardholders are wondering how quickly they can use theirs, since their value could soon fall to zero given the precarious and uncertain future of Alitalia, Italy's state-controlled flag-carrier. On July 17th Air One, a privately owned Italian airline, announced that it would not bid for the shares in Alitalia that the government offered for sale at the end of last year, initially attracting 11 expressions of interest. As potential bidders dropped out, Air One was seen as the last hope for an Italian buyer. It said that it had decided not to make a binding offer because of the contractual conditions, though difficulties in financing the deal probably did not help.

The lack of interest in Alitalia is not surprising, given the conditions that the buyer was required to meet. These included taking on Alitalia's debt and maintaining its current route structure, territorial coverage and Italian identity—keeping things pretty much as they are, in short.

Yet Alitalia clearly needs shock therapy. Last year it reported a consolidated net loss of €626m ($785m), having lost about €2.6 billion between 1999 and 2005. The misery has continued this year with a pre-tax loss of €147m in the first quarter. Alitalia's difficulties are such that Consob, Italy's stockmarket regulator, requires the airline to report on its financial position every month. At the end of May the group had net debt of €1.05 billion and €466m in net available funds. Without new capital Alitalia is close to stalling, as cash reserves run low and creditors start to worry more about getting paid.

Clearly a buyer will need deep pockets to keep Alitalia airborne. Air One had hoped that Intesa Sanpaolo, Italy's second-largest bank, would provide them. But could such a tiny outfit really turn Alitalia around? Air One had a fleet of 40 aircraft at the end of last year, against Alitalia's 186. It made a profit of €7m, but its traffic revenues of €570m were one-eighth of Alitalia's, at €4.4 billion. At the end of 2006 its net assets amounted to just €59m.

Air One's owner, Carlo Toto, can claim success in launching a scheduled airline, but he did this before low-cost airlines landed in Italy, and in a market where travellers were glad of an alternative to the incumbent. Sorting out the problems at Alitalia, where more than ten trade unions defend long-established privileges—one of them flexed its muscles by striking on July 18th—is a different challenge altogether.

So what will happen next? After vast infusions of state aid, Alitalia should now be refused more public money under European Union rules. No doubt Italy's politicians would find ways to pump in more money if the airline were placed in administration. The best option would be liquidation, opening the way for low-cost airlines to acquire Alitalia's routes and boost competition. But the government, which owns 49.9% of Alitalia, may simply decide to open direct negotiations with Air One, or with Air France, which has held a 2% stake in Alitalia since November 2002 and was expected to express an interest, but did not. If the

French airline were to buy Alitalia, it would at least put an end to the worries of all those MilleMiglia cardholders, since both airlines are members of the SkyTeam alliance.

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Clean tech in China

Green shoots

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A new venture hopes to promote clean-technology investment in China

CHINA is not feted for its stewardship of the environment. One recent World Bank report found that 16 of the world's 20 most polluted cities were in China; and a draft version of another puts the total economic cost of outdoor air and water pollution at around $100 billion a year, or 5.8% of China's GDP. By some estimates, China has now overtaken America to become the world's largest producer of greenhouse gases. Environmental protests, such as one that took place in Xiamen last month in response to a plan to build a chemical plant in the city, are on the rise.

The pollution that has resulted from China's growth is a huge problem, but to investors it presents an enormous opportunity. Venture-capital investment in clean tech in China is picking up, increasing by 147% from $170m in 2005 to $420m last year, according to the Cleantech Group, an industry research body. Most of this investment was in solar energy, a booming field in which several Chinese firms have gone public in the past year. But though China has now become the world's third-largest manufacturer of solar panels, most of them are exported, thanks to the subsidies offered in the developed world.

Several initiatives aim to promote the development and deployment of clean technologies within China itself. The most prominent is the Clean Development Mechanism (CDM) of the Kyoto protocol, the United Nations' treaty on climate change. Under the CDM, projects that reduce emissions of greenhouse gases in poor countries earn credits, which can be purchased by rich countries in lieu of reducing their own emissions as required by the treaty. The Chinese government has already approved 524 such projects; China accounted for 61% of the CDM market last year, which was worth nearly $5 billion.

The Chinese government is also introducing environmental targets of its own in areas such as building regulations, appliance efficiency and the energy consumption of big companies. Meeting them will require vast sums to be spent on new technologies, and several schemes involving local and foreign institutions aim to encourage that investment. The latest, announced in Beijing this week, is a non-profit, public-private organisation called the Joint US-China Co-operation on Clean Energy (JUCCCE). It grew out of an energy conference that took place in Shanghai in April and is headed by Peggy Liu, a former Silicon Valley executive who is now a venture capitalist in China.

Ms Liu says its aim is to compress 30 years of clean-tech development into just ten, in part by bringing together innovators and investors. It will promote investment in both reducing energy demand and greening supply. It is particularly enthusiastic about the prospects for trimming energy consumption in buildings, which can be two or three times more energy-hungry in China than elsewhere. Rob Watson, a JUCCCE member and the man behind LEED, a popular standard used to certify green buildings around the world, says he has been commuting to China regularly in recent years to advise local builders and contractors. He likens the energy-distribution system to a “leaky bucket” and says plugging the obvious holes could have a big impact relatively quickly.

Last year the government set a goal of reducing the energy consumption of new buildings by 50%, and in some cases by 65%. Yet success depends not only on the strength of regulations, but also on the zeal with which local authorities enforce them. As in the rest of the world, relatively few green technologies are competitive without subsidies or incentives of some sort. A shining exception is solar-powered water heaters, of which China has more than any other country. Chinese firms sold $2.6 billion of them last year alone.

The combination of environmental degradation, economic growth and manufacturing prowess means that China “has the opportunity to be at the forefront in finding solutions to the energy problem that the world faces”, says Richard Branson, a British businessman who is investing in a range of clean-tech initiatives. In the 1960s, after all, Japan was also a fast-growing, polluted country; yet today Japanese firms are the leading manufacturers of hybrid cars and solar panels.

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Mobile television

The third screen

Jul 19th 2007 | SAN FRANCISCO
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Having spread to computers, television is starting to reach mobile phones

AP

The future, apparently

AN UNDERAPPRECIATED feature of the iPhone, Apple's fancy new handset, is its ability to mesmerise a toddler in her terrible twos long enough for a parent to take an espresso break. Just call up a YouTube video—tots love the dog on a skateboard—and put the sleek, high-resolution screen on the table. After a few minutes, tap on another clip—of a man dancing in exotic places, say. The quality of iPhone's video "experience" points the way to what the industry sees as the next step: not just video clips but live television on mobile phones. Except for islands of early adopters, such as South Korea, consumers have so far shown little interest in watching TV on their handsets. Once they see the ease and fun of the iPhone clips, the logic goes, they will want video on their phones too.

IDC, a market-research firm, forecasts that 24m Americans will be watching video on their mobile phones by 2010, up from 7m today. The European Commission estimates that mobile TV will generate global sales of $5 billion-7 billion by 2009. Many operators already offer some sort of television service and charge for it on the monthly bill. Others think that advertising is the big commercial opportunity, just as it has been on old-style "free-to-air" television. That is why Nielsen, an American firm that monitors television viewership, bought Telephia, a firm which tracks mobile-phone usage, last month.

For the television industry, which is already trying to adjust to viewers who wish to watch not only on their TV screens but also on their computer screens, this means more upheaval. "We have a three-screen vision," says Chris Drake, boss of the mobile-business unit of thePlatform, a part of Comcast, America's largest cable company. And so does everybody else. In May AOL, part of Time Warner, the world's largest media company, even bought a firm named Third Screen Media, which enables advertising on mobile phones. Giuseppe Zocco, a venture capitalist at Index Ventures, says his research indicates that people watch mobile TV as much at home and in the office as during their commutes. (He has invested in Joost, which lets people view TV on their computers, and Telegent, which makes chips that allow mobile phones to receive terrestrial broadcasts.)

To complicate matters further, there are several different ways to watch video on mobile phones today. One is to download clips onto a computer and then transfer them to the handset, a technique known as "sideloading". But it requires planning and lacks the excitement of, say, live coverage from Wimbledon, says Ryan Hughes of Verizon Wireless, a big American operator which recently offered just that.

Even within live TV there are several variations. The oldest approach is to stream video over existing mobile networks. This is what MobiTV, a Californian firm, has done since 2003, when it launched its first service with Sprint, another American operator. MobiTV now reaches more than 2m subscribers through partnerships with operators. But this approach does not "scale". If too many people in one network cell tune in simultaneously, the network grinds to a halt.

A more efficient approach for live TV is to "multi-cast" a signal to all handsets using a separate radio network overlaid on the existing mobile network. Several different standards are vying for supremacy. In America MediaFLO, the technology used by Verizon, is catching on fastest. On July 18th the European Union endorsed a rival standard, called DVB-H, which is already in use in Italy and Finland and is supported by Nokia, the world's biggest handset-maker. Other standards, some of them satellite-based,

are in use in Asia.

But even multi-casting may be only a step on the way to the ultimate mobile-TV model. This, says Mr Zocco, is the “open internet phase”, in which wireless-broadband connections are so ubiquitous that all handsets will be able to hop onto them. People will then watch whatever they like, whenever they like, as is gradually becoming possible on computers. Mobile operators, who hope to charge for mobile TV, are not eager to reach this phase too soon. But this too is something that the iPhone may teach consumers to expect.

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Face value

Book value

Jul 19th 2007
From The Economist print edition

Eyevine

Mark Zuckerberg of Facebook is being touted as the new Steve Jobs, and his company as the next Google

OLDER people in particular are often taken aback by the speed with which the internet's “next big thing” can cease being that. It even happens to Rupert Murdoch, a septuagenarian media mogul. Two years ago he bought MySpace, a social-networking site that has become the world's largest. The other day, however, Mr Murdoch was heard lamenting that MySpace appears already to be last year's news, because everybody is now going to Facebook, the second-largest social network on the web, with 31m registered users at the last count.

Facebook was started in 2004 by Mark Zuckerberg, a student at Harvard and not even 20 at the time, along with two of his friends. The site requires users to provide their real names and e-mail addresses for registration, and it then links them up with current and former friends and colleagues with amazing ease. Each Facebook “profile” becomes both a repository of each user's information and photos, and a social warren where friends gossip, exchange messages and “poke” one another.

Facebook is generating so much excitement this summer that bloggers are likening Mr Zuckerberg to Steve Jobs, the charismatic boss of Apple, and calling his company “the next Google” on the assumption that a stockmarket listing must be imminent. It may be. Mr Zuckerberg has rejected big offers from new- and old-media giants such as Yahoo! and Viacom. One of his three sisters, who also works for Facebook, has posted a silly video online that makes fun of Yahoo!'s takeover bid and sings about “going for IPO”. And Facebook has advertised for a “stock administration manager” with expertise in share regulations.

And yet Mr Zuckerberg insists that he is “a little bit surprised about how focused everybody is on the ‘exit’.” The truth is that he is sick of talking about it. The venture capitalists backing Facebook may want to cash out, but Mr Zuckerberg is only 23 and doesn't need the money. He also happens to believe—rather as Google's young founders do—that he can, and should, change the world. A flotation would be a big distraction.

Metaphorically, Mr Zuckerberg views himself as similar to the pioneering Renaissance mapmakers who amassed and combined snippets of information and then charted new lands and seas so that other people could use their maps to find, say, new trade routes. In Mr Zuckerberg's case, the map charts human relationships. Whereas many of the other social networks on the web primarily help people to make new contacts online—whether for hanky panky, marriage or business—Mr Zuckerberg is exclusively interested in “mapping out” the “real and pre-existing connections” among people, he says.

The fancy mathematical name he has for this map is a “social graph”, a model of nodes and links in which nodes are people and connections are friendships. Once this social graph, or map, is in place, it becomes a potent mechanism for spreading information. For instance, he says, “we automatically know who should have a new photo album,” because as soon as one person uploads it to the site, all her friends see it, and the friends of friends might notice too.

Other social networks can also do this, of course, but Facebook is distinctive in several ways. First, it is currently considered classier than, say, MySpace. One academic researcher argues that Facebook is for “good kids”, whereas MySpace is for blue-collar kids, “art fags”, “goths” and “gangstas”. Facebook's roots are indeed preppie. Mr Zuckerberg took Latin, Greek and fencing at Phillips Exeter Academy and started Facebook at Harvard, after all. From there it spread to other elite universities, and it only opened up to the general population last September.

Mr Zuckerberg, however, thinks that the bigger difference is that Facebook is now becoming a “platform”. By this he means that it is evolving into a technology on top of which others can build new software tools and businesses. In May Mr Zuckerberg opened Facebook up for outsiders to do just that, promising that any advertising revenues that third parties collect within Facebook are theirs to keep. Already, thousands of little tools have been created that allow Facebook users to share and discover music, play Sudoku, lend each other money, and so on. These toys can then spread through the social graph. If one user plays Sudoku, his friends see it and might try it too. These innovative uses of the social graph are, in Mr Zuckerberg's mind, the precise analogy to the trade routes that were found once the ancient mapmakers had done their part.

The cartographer of human connections

Clever though this is, the comparisons to Mr Jobs and Google are not merited yet. Mr Zuckerberg has evidently studied Mr Jobs's speaking style closely; and just as Mr Jobs is known for his uniform of jeans and a black mock-turtleneck, so Mr Zuckerberg has turned his combination of Adidas sandals, jeans and fleece sweaters into a trademark. But he has not had the chance to prove whether he has Mr Jobs's abilities to triumph over adversity and deliver not just one big idea, but a string of them.

Mr Zuckerberg is about to be tested in two ways. A three-year-old lawsuit is coming to court in which he is accused, in effect, of stealing the idea for Facebook from three other Harvard students. And if Facebook really is going to do a Google and go public, he will have to convince investors that mapmaking can be a business. One of its investors recently said revenues might come to $100m this year. But it is not clear how much of this comes from one big deal with Microsoft, which needs Facebook as a partner and might even like it as a division. Advertising, the obvious business model, does not seem to work well on Facebook, perhaps because people go there to socialise, not to shop. Trying to make money in other ways could be risky, since it might alienate users and damage the social graph. And it is, remember, awfully easy for one “next big thing” to be overtaken by the next.

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Award

Jul 19th 2007
From The Economist print edition

Caroline Lambert, our correspondent in Johannesburg, was named Best Journalist in this year's Diageo Africa Business Reporting Awards. The judges commended her “varied and realistic portrayal of business on the continent”.

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Talent management

Accounting for good people

Jul 19th 2007 | LONDON AND NEW YORK
From The Economist print edition

Surprising as it might seem, the Big Four accountancy firms have lots to teach other companies about managing talented people

Bridgeman Art Library

BEING interesting can be overrated. Accountants became suddenly intriguing in 2002 with the spectacular collapse of Arthur Andersen, because of its involvement in the scandals surrounding the fall of Enron. This added unwanted colour to a grey profession. Since then the surviving titans of accountancy—Deloitte Touche Tohmatsu, Ernst & Young, KPMG and PricewaterhouseCoopers (PwC), also known as the Big Four—have mostly retreated back into the shadows of public awareness. But interesting they remain, above all for the way they manage their people.

It is not just that they collectively employ some 500,000 people around the world. Many companies are as big as they are. Unlike most, however, the Big Four really mean it when they say that people are their biggest assets. Their product is their employees' knowledge and their distribution channels are the relationships between their staff and clients. More than most they must worry about how to attract and retain the brightest workers.

Time is regularly set aside at the highest levels to chew over how best to do this. Detailed goals are set: Deloitte's 2010 business plan includes targets for staff turnover, the scores it seeks in its annual staff survey and the proportion of female partners it would like to have. Partners are increasingly measured and rewarded as managers of people, not just for the amount of money they bring in. People-related items account for one-third of the scorecard used to evaluate partners at PwC. KPMG's British firm has introduced time codes so that employees can account for how long they spend dealing with staff matters. The idea is that those who devote lots of time to people-related matters are not disadvantaged as a result in pay rises and promotion.

The Big Four are by no means perfect. The sheer numbers they employ can still make them feel like sausage factories. Small firms are quick to take advantage of that when recruiting. Nevertheless, the big firms' evolving efforts to attract the best candidates and to encourage and keep the brightest people provide useful lessons for other companies.

The most intractable problem is that there are never enough skilled or promising people to go around. Just as competition for the best of the bunch is growing, the pool of available talent is changing. In America baby-boomers are flooding into retirement; in Europe the market is greying; and in India and China the large number of graduates masks low numbers of truly high-quality candidates.

Staff demands

There are added problems for accountancy firms. Job cuts earlier in the decade created a shortfall of people now. Regulatory changes, such as America's Sarbanes-Oxley Act, have boosted demand from clients not just for accountants' services but also for their staff. To add to their difficulties the Big Four are now aggressively re-entering the field of advisory services, necessitating a new burst of hiring. Ernst & Young is not unusual: it hired some 25,000 people in 2006, but expects to hire 30,000 this year and 35,000 in 2008.

Much of this recruitment is aimed at hard-to-find experienced professionals, especially important in the advisory businesses where corporate knowledge is highly valued. As a result, an old taboo is being broken and more outsiders brought straight in as partners. Robust selection procedures are used to ensure that they fit in. Programmes that help keep the firm in touch with former employees are also being strengthened so that people who leave can more easily find their way back (these “boomerangs” account for up to a quarter of those hired by the Big Four in America).

Former employees can also act as useful recruiting agents and help to drum up new business. For these alumni programmes to work “a massive cultural switch” is needed, says Keith Dugdale, who looks after global recruitment for KPMG. Few employers are used to helping people leave on good terms. But in an era of job-hopping and a scarcity of skills, loyalty increasingly means having a sense of emotional allegiance to an employer, whether or not that person is still physically on the payroll.

A similar change in attitude is needed to manage the careers of female employees. Each of the Big Four wants to promote more women, who account for about half of their recruits but around a quarter, at best, of their partners. Many women drop off the career ladder at some point (usually to have children or to care for an elderly relative) and find it difficult to get back on again. Options such as career breaks and part-time working are part of the accountants' response. “The Big Four are ahead of most in managing talented women,” says Sylvia Hewlett, author of “Off-Ramps and On-Ramps”, a new book on the subject (see article).

Across borders

Gaps in one country can be plugged with people from another. The Big Four have big plans in Asia, especially China. Deloitte aims to have 20,000 people in greater China by 2015, up from some 8,500 now. But like other firms it is finding that experienced people are thinner on the ground than promising but untested ones. One answer is to use member firms outside China to find experienced Chinese émigrés who want to return home, although they do not always get on well with local employees. Similar techniques are used to handle temporary gluts of work. Canadian accountants cross the border in droves during the American audit season to reinforce their American colleagues' efforts.

Mobility is seen as a useful way to retain and help employees develop. International assignments can be critical in attracting new graduates. According to Pierre Hurstel, Ernst & Young's global managing partner for people, new entrants want to work abroad: that's the biggest change in recruits in the past five years, he says. Recruiters at PwC are authorised to promise the best candidates on campus language training and an overseas visit at the end of their first year. International assignments can be pledged after two to three years. High-minded young people also want to work for companies with a decent ethical reputation.

Retaining good people is the biggest challenge. Turnover rates at the Big Four have historically been high—roughly 15-20% leave each year, compared with as few as 5% in some other industries. The cost of this is “astronomical”, says Jim Wall, Deloitte's managing director of human resources. Mr Wall reckons that every percentage-point drop in annual turnover rates equates to a saving of $400m-500m.

Even so, the accountant's goals are more nuanced than simply increasing retention rates. None of the big accountancy firms wants churn rates to fall too far, if only to keep the performance bar high. Mr Wall thinks a 10-12% turnover rate would be about right; Richard Baird, PwC's people chief, reckons that 12-15% is comfortable. Rather, the Big Four want more of their most talented people to stay.

The biggest staff exodus comes after three years, once recruits have been certified as accountants. Many never intend to stay any longer, aiming instead to parlay their qualifications into a new job and a fatter pay cheque somewhere else. That presents the Big Four with a particular problem: how to identify future stars among the mass of raw recruits. The trouble is, most talent-development programmes start at a later stage in people's careers.

One strategy is simply to persuade people to stay longer, which provides more time for employers to spot

and seduce the best performers. The Big Four can point to research conducted among leavers that many would like to return and that even more wish they had stayed longer. Leaving after six years rather than three, say, means that people tend to go into better jobs with higher pay—which can also help the effectiveness of the alumni network.

Driving talent-management practices deeper into the organisation is the bigger priority, says Tony Osude, of the Association of Chartered Certified Accountants. Talent-spotting has traditionally been left to a middle-management layer of audit supervisors until people get closer to being a partner (partly because employees tend to be invisible to many of their superiors, working as they do in small teams at the offices of the client).

The effect has been to underutilise one of the big organisational advantages that the Big Four have: a large pool of partners who can help coach less experienced staff. That is changing. Rather than seeing junior staff as expendable drones, the Big Four's talent bosses want partners to view them as future assets. As well as tying reward schemes to the better management of people, the behaviour of partners is being changed in smaller ways. Deloitte's British firm asks partners to spend a minute with their staff immediately after client meetings to provide feedback so that they fulfil more of a training role.

Scoring skills

Changing the way partners behave takes time and will not solve every problem. Audit work is not the world's most fascinating job and junior staff have limited influence over their assignments. But they can be given a clearer idea of how their career might shape up and greater control over it. Ernst & Young spent years asking partners to identify the skills needed for a gamut of roles, each of which carries a rating from one for beginner to five for a master. Using this, staff will soon be able to view not only a profile of their skills but also what capabilities they need to acquire in order to move up into more senior positions. Many of the training and development services are delivered electronically.

By giving people more control over their career development the big accounting firms are starting to recognise that an overly aggressive “up or out” approach is a risky strategy when skills and bright people are in short supply. “Not everyone will be a senior partner,” says Doug Jukes, KPMG's lead partner for people management. “But they can still be extremely valuable to the firm.” Deloitte is in the process of boosting the status and pay of principals, a grade between director and partner for senior people.

Even so, a partnership remains the goal of the ambitious. KPMG has a programme called Compass, which identifies 11 career milestones on the path to becoming a senior partner, each of which triggers development activities. PwC runs Genesis Park, a five-month residential course for a hand-picked group of would-be partners from around the world.

People are expected to keep learning and networking after they have been made a partner too. Mr Hurstel, at Ernst & Young, worries about how to keep long-serving partners happy and energised, especially after the Enron scandals have eroded their godlike status. “Great armies have the capacity to restore their wounded,” he says. One of the programmes he runs is called “leaving a legacy”. It is designed in part to help prepare partners for life outside the firm, perhaps as board directors, but also to help them pass on their expertise.

The scale of resources pumped into talent management by the Big Four may be beyond most employers, but many of their ideas could still be copied. Building programmes that keep the company in touch with former employees, offering more flexible career paths to women and making people management an explicit part of the incentive system for senior staff are all useful tools for employers of people who think for a living. A more intriguing question is whether the organisational structure of the big accounting firms also has lessons for other companies.

More room at the top

Being a partnership confers some advantages. It is not just that a large number of senior people are available to help train and encourage junior ones—what Deloitte's Mr Wall calls an apprentice model—but that more people can succeed. Whereas success at a typical company means climbing to one of a few top positions—and probably elbowing others aside in the process—partnerships provide a broader top to the pyramid. Between them, the Big Four firms had more than 30,000 partners in 2006.

Partnerships are also flexible: if someone is good enough, the number of partners can be expanded to accommodate them. They are also consensual in style, which is important when managing clever, self-regarding people. The principles of joint ownership help to encourage networking and co-operative behaviour. “It is easier to persuade people about the importance of talent management in a partnership,” says Mr Baird.

But partnerships also have their downsides. Decision-making and innovation can be a lot tougher when so many other people have to be consulted. And in big partnerships people cease to know each other personally. For the Big Four, these problems are reinforced by their unwieldy federations of individual member firms scattered around the world.

According to Lowell Bryan, a partner at McKinsey and author of “Mobilising Minds”, a new book on getting the most from people, the ideal corporate organisation would blend elements of the typical company, the armed forces and professional services firms. An expanded “partner-like” group of senior managers at the top of the company is one of the features that he thinks could usefully be borrowed from professional services.

Cynics may wonder if the Big Four's focus on talent is only cyclical. Will expansion in their fast-growing advisory businesses make them less concerned about nurturing people in lower-margin audit work? Would an economic downturn quickly send head-counts plunging again? The size of workforces at individual firms, and in the business lines within them, will continue to ebb and flow with demand. But the supply constraints faced by employers are more rigid. As the battle in the long-heralded “war for talent” is joined across industries and countries, it could be worth keeping an eye on how the Big Four are quietly leading the charge.

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Women and work

Breaks and ladders

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Female employees need different career paths

THE Big Four look embarrassingly male at their most senior levels. Although around half of their intake is female, that proportion shrinks rapidly as people climb the career ladder. KPMG wants women to account for a quarter of partners by 2010; Deloitte is aiming for a figure of 31% for its female partners and directors by 2009, up from 26% now.

Corbis

One day, someone will invent something to do this at home

To get to even these relatively modest targets, the firms must grapple with what Sylvia Hewlett, of the Centre for Work-Life Policy in New York, calls women's “non-linear career paths”. According to her research, 37% of all professional women drop out of work at some point; even more will spend time working flexibly. Getting back into employment is not easy: only 40% manage to find full-time jobs. And those that do suffer a swingeing loss of earnings: a 38% fall for those who have been out of the office for three years or more compared with those who have stayed.

Smart employers are toying with ways to keep the door to “off-ramped” female staff ajar. The big accounting firms offer formal career breaks that allow staff to take unpaid leave from work. Booz Allen Hamilton, a consultancy, and Lehman Brothers, an investment bank, run programmes offering interesting project-based work to women who are not ready to take on full-time positions.

Flexible working can also improve retention, through options such as part-time work, compressing work into fewer days and seasonal schedules which can fit in with school holidays. Flexitime and home working are popular and help explain why more than 80% of the women on maternity leave at the Big Four return to work, which is a higher proportion than in other industries.

Child care is not the only issue such schemes address. More and more people look after elderly relatives—Ms Hewlett points to China, where women from the one-child generation will look after not just their parents but also their in-laws.

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Monetary policy

Allowing himself a smile

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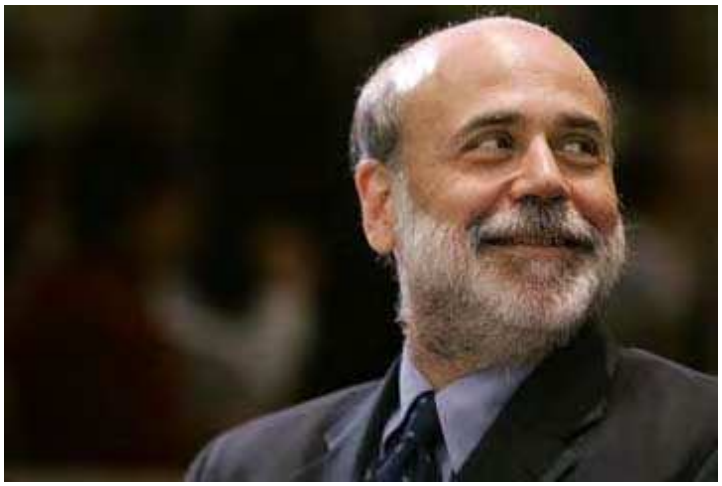

In the past year, Ben Bernanke has shown a deft touch at the Fed, but the economy may be weaker than he thinks it is

A YEAR ago, financial markets had their doubts about Ben Bernanke. Inflation was rising and the Fed's boss had fumbled his early communications with Wall Street. No longer. As Mr Bernanke delivered his twice-yearly monetary testimony to Congress on July 18th, his competence was lauded from all sides.

Nothing builds credibility quicker than success. And the Bernanke Fed's decision to hold short-term interest rates steady at 5.25% last August—squeezing inflation without crushing the economy—has been largely vindicated.

The Fed has got two big calls right. It calculated that the housing market would slow the economy, but not derail consumer spending enough to cause recession. It also judged that inflationary pressures would abate, without the need for further hikes in interest rates. But a closer look reveals that the economy endured a bumpier ride than forecast. The homebuilding slump has proved deeper and more protracted than expected. Housing investment plummeted by 16.4% in the year to the first quarter, cutting a full percentage point off GDP growth. Things have not improved much since, as Mr Bernanke acknowledged in his testimony. Weakness in residential construction, he said, would depress growth for some time yet.

A key puzzle is why unexpectedly weak growth failed to push up America's jobless figures. The unemployment rate in June was 4.5%, down slightly from 4.6% a year earlier. In last summer's report to Congress, the Fed had forecast a jobless rate of between 4.75% and 5% in 2007.

What explains this discrepancy? One possibility is that employment is not as strong as it appears. Much depends on what is going on with construction workers. For the biggest surprise is how small the job losses in homebuilding have been. On some measures, activity in housing construction has slumped by more than a quarter since early 2006. Yet employment in the sector has fallen by less than 4%, or around 140,000 people, from its peak. Economists at Deustche Bank point out that if employment had moved in line with the reduction in activity, around 900,000 jobs would have been lost.

It could be that builders are hoarding workers, hoping that the housing slump is about to end; but it seems increasingly unlikely. A year or more on from the peak in the housing market, and with stocks of unsold homes still rising, building firms cannot help but be gloomy. Maybe construction workers have shifted from building houses into non-residential work, building schools, shops and factories. That type of construction has held up well but, as the Deutsche Bank economists point out, the skills required are somewhat different.

A third possible explanation is that jobs are being lost but they are held by illegal immigrant workers, who do not show up on the books. In a notoriously cyclical business, the use of temporary workers and undocumented immigrants is widespread. Legal Hispanic workers account for nearly a third of employment in construction. Illegal Latino workers play a significant role too and, like legal temps, are most vulnerable to job losses during a downturn. By tracking the sensitivity of Hispanic employment to shifts in house-building activity, the Deutsche Bank researchers conservatively estimate that around 500,000 undocumented Latino workers have been laid off in the industry since last year. If correct, this helps resolve the puzzle of resilient employment and suggests America's labour market is less tight than it appears.

Another sign of a faltering jobs market is a decline, in recent months, in the share of population that is willing to work. The labour-force participation rate is down 0.3 percentage points since December 2006. Normally, if the jobs market is strong, the participation rate increases. Jared Bernstein, an economist at the Economic Policy Institute, a think tank, points out that the participation rate has fallen particularly sharply for groups that are often hurt first in a weak economy: since December it is down 0.6 percentage points for blacks and 0.9 percentage points for Latinos. Were these people included in the work force, he reckons, the jobless rate would be 5%.

A slacker labour market would help explain another puzzle of the past year: why wages have not accelerated more. Average wages for non-supervisory workers rose by 3.9% in the year to May, slower than the 4.3% increase in 2006. With the unemployment rate at, or below, the level most economists associate with full employment, that seems odd. Pressure for higher wage increases is the inflation risk that most concerns America's central bankers, but so far it has failed to materialise.

In fact inflation—at least on core measures—has slowed a bit sooner than hoped. Last summer, the Fed forecast that the increase in its favoured core inflation gauge, the price index for personal consumption expenditures excluding food and energy, would be 2-2.25% this year. But in May it dipped below 2% for the first time in more than three years.

Set against that, higher fuel and food costs have kept headline inflation up. Given high energy prices, the weakening dollar and strong global growth, there are plenty of reasons for concern about price pressure. That is why the Fed continues to worry more about inflation than growth.

But the balance of risks may be shifting subtly. Alongside tentative signs of a looser jobs market, there are indications that American consumers may be faltering. Retail sales fell by 0.9% in June and recent profit warnings from Home Depot and Sears suggest that the effects of the housing slump may now be spreading. And while growth in industrial production looked much healthier in the second quarter, much of the impetus probably came from restocking. The fear is that the expected recovery in second-quarter GDP, after a near-stagnant start to the year, may not prove durable. For now, the central bank is focused on the risk that inflation persists. But there are worrying signs that the economy may be weaker than the Fed thinks it is.

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Buttonwood

Vanishing vigilantes

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Why the markets may be undermining central banks

WHATEVER happened to the bond-market "vigilantes"? In the 1980s and 1990s, they patrolled the world, punishing governments or central banks that were soft on inflation by pushing up their borrowing costs.

But we have heard a lot less about these debt-market disciplinarians in recent years. Instead, bond yields have been puzzlingly low, a conundrum that taxed even Alan Greenspan, the former Federal Reserve chairman.

Perhaps the globalisation of financial markets has had a perverse effect. The markets are no longer populated by vigilantes but by 1960s hippies with a "make loans, not war" philosophy. They may be forcing some countries to enjoy far laxer credit than their central banks would like.

In a new paper*, Carsten Valgreen, the chief economist of Danske Bank, highlights the cases of Iceland and Latvia. Each has embraced financial globalisation in its own way: Iceland has a free-floating currency; Latvia has pegged its currency to the euro. Iceland's banks are homegrown; Latvia's largely foreign-owned. But both countries have racked up enormous current-account deficits, running at a remarkable 25-30% of GDP. And both have escaped the kind of currency crisis that a vigilant bond market would traditionally have imposed.

Iceland's companies have been in an acquisitive mood in recent years, borrowing heavily to buy abroad. The country has also used foreign finance to build some large aluminium smelters. As a result, its gross foreign debt is more than five times the value of its GDP. The Central Bank of Iceland has tried to slow the process, raising short-term interest rates to nearly 15%. But its efforts have, if anything, backfired. High rates have made Iceland the beneficiary of the "carry trade", where investors borrow in a low-yielding currency and invest the proceeds in a higher-yielding one. This trade offends economic theorists, who assume the juicy yields Iceland offers will be offset by an eventual plunge in the value of its currency. But so far the trade seems to have worked. Meanwhile, Icelandic consumers have taken the opportunity to borrow cheaply abroad, bypassing the punishing interest rates imposed by their central bank.

In Latvia, credit growth has exploded, hitting 50-70% in each of the last three years, while wage growth has reached an annual rate of 25%. Latvia's fixed exchange rate stops the central bank raising rates to counter the boom. Nor have foreign investors sounded the alarm; indeed, Mr Valgreen says foreign banks are responsible for much of the lending spree. There is not much the Latvian authorities can do.

The travails of Iceland and Latvia are part of a wider trend. New Zealand is also struggling with the conflict between its domestic aim of controlling inflation and the impact that higher interest rates have on international capital flows. All three countries have unusually small and open economies. As such, they are the first to register any change in the wind.

If globalisation has weakened the hand of central banks, so has financial innovation. The growth of derivatives, for example, has made it harder for central banks to control the supply of money and credit. According to the Bank for International Settlements, the face value of outstanding derivative positions on over-the-counter markets is some $400 trillion. These instruments give investors a claim on a large chunk of assets, with only a small downpayment. When asset prices rise, speculators can then borrow against their increased wealth, helping to drive prices even higher.

If the world's largest central banks tightened monetary policy aggressively enough, they would bring this process to an end. But tightening in Europe and America has been steady and Japan has barely taken part.

As central banks lose authority, might credit-rating agencies play the watchdog role? By acting swiftly to downgrade debt, they would constrain companies (and countries) from borrowing too much. But the

agencies tend to lean with the wind, rather than against it. They upgrade debt when the economy is booming and downgrade it when recession strikes.

If the central banks do eventually slam on the brakes, therefore, the rating agencies will only exacerbate the downturn. As asset ratings fall, investors will be forced to sell their holdings and credit will be withdrawn from the system.

Thanks to the financial markets, central banks now struggle to police the economy. But this may imply that the bust, when it comes, is as hard to control as the boom that preceded it.

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* “The Global Financial Accelerator and the Role of International Credit Agencies”. July 2007.

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Private equity

Walker's way

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From The Economist print edition

An unpopular industry considers self-policing

THE kings of private equity are better at making money than making friends. Reviled in Europe as the spawn of Gordon Gekko and pilloried in America for paying nugatory taxes, they have an image problem to match their bank balances. Efforts to be seen in a more favourable light—such as the formation of charitable foundations and industry groups that tout the economic benefits of buy-outs—have been of little help. Hence the interest this week in a British report that will lead to the industry's first serious stab at self-regulation.

The review was commissioned by an industry group and led by Sir David Walker, a former banker and regulator. A version of it is expected to be adopted as a voluntary code of conduct in Britain once private-equity bosses have debated its recommendations, possibly in November.

The industry, says the report, has allowed itself to be viewed as “needlessly secretive”. This remains the case even as some private-equity firms rush to go public, particularly in America. Sir David suggests that their British peers be made to provide annual reports and that the companies they own should report every six months. Each review would include information on the top partners, the performance of their funds, their fees and an indication of who their investors are. The report also urges buy-out barons to consider appointing more external directors to companies in their portfolios.

Disclosure is a bigger issue in Britain than in America, where any company that issues publicly traded debt has to file wodges of financial information with the Securities and Exchange Commission. Private equity bosses reckon they have already lost the battle over disclosure. Big investors, such as CalPERS, have for some time been posting on their websites the performance of funds in which they are limited partners, for instance.

Sir David maintains that voluntary guidelines could be a useful first step in heading off legislation. “We need to do whatever it takes to get away from the appearance of an industry being dragged kicking and screaming into the open,” says the head of one buy-out firm.

But there may be limits to what the industry will accept. One worry is that private-equity firms will find themselves at a disadvantage to other kinds of private company, such as those owned by families or individuals, which won't be expected to adopt the new code. The call for more external directors has also caused agitation. Private equity is widely seen as having solved the “agency problem” of public companies—executives looking after their own interests rather than those of shareholders—by encouraging managers and owners to work closely with clear objectives. Hiring more outsiders might dilute this advantage by, as Josh Lerner of Harvard Business School puts it, “replicating the pathology of the public board.”

Sir David insists this is not his intention. He has in mind experienced industry professionals who would want to work closely with insiders on turnarounds, not fully independent directors more interested in providing checks and balances than profitable ideas. “We must be very careful not to take the public-company model as our benchmark,” he says. Perish the thought.

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Austrian banks

Viennese cocktail

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From The Economist print edition

Bankers on trial for a grand scandal

HELMUT ELSNER once enjoyed an opulent life. The former boss of BAWAG, an Austrian bank, lived in a penthouse flat with a swimming pool, built for him on top of the bank's office in the heart of Vienna.

That bank nearly collapsed last year, after ruinous losses from risky speculation. This week Mr Elsner (pictured opposite), top dog from 1995 to 2003, and eight others stood trial over what has been billed as the "greatest economic scandal in Austria's post-war history". Far from the poolside and carrying a swollen foot, Mr Elsner found the sweltering heat of the courtroom too much to bear. The eldest of the defendants, he was excused attendance at the second day of the trial.

AP

Footing a loss

The financial speculation that eventually caught up with BAWAG began in the early 1990s, under Mr Elsner's predecessor, Walter Flöttl. Things began to go wrong after 1995, culminating in a dramatic loss of around $600m in October 1998 after a disastrous punt on the yen arranged by Mr Flöttl's son, a freelance banker who is also on trial. According to the prosecution, the losses were covered up and the speculation resumed.

To plug the holes, money was taken from the strike fund of ÖGB, the federation of trade unions that owned the bank. Mr Flöttl's son also surrendered his collection of paintings, which once included Degas, Picasso and Van Gogh.

Another bad bet prompted a run on the bank in April 2006. The panic was eventually stemmed with fresh funds from two insurance companies and a government guarantee. The overall losses are estimated at €1.4 billion.

All defendants plead not guilty to charges of fraud and breach of trust. But the riveting question is who knew what when, and how far officials and politicians colluded with the hush-up.

No other banking sector in Europe is as political as Austria's. Most of the big ones developed under the political influence of the socialist or conservative parties. They also have shares and board seats at Austria's central bank, which supervised them until April 2002. One defendant alleges that BAWAG alerted the central bank to its troubles as early as October 2000.

Some Austrian banks have since escaped their political past with help from foreign buyers. Bank Austria is now owned by UniCredit of Italy; and Hypo-Alpe-Adria Bank, once steeped in Carinthian state politics, has been bought by Bayerische Landesbank of Germany. After stepping back from the brink, BAWAG was itself bought last year by Cerberus, an American private-equity firm.

But a parliamentary inquiry into BAWAG, Hypo-Alpe-Adria and other matters ended inconclusively on July 6th. More a political football than an inquiry, it was boycotted by many bankers and politicians. "Wiener Schmäh", a fine old mess-up, is the Viennese word for it.

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The oil price

The visible hand on the tap

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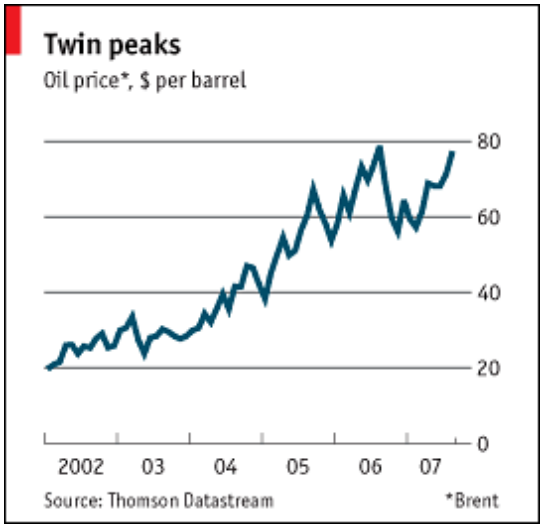
OPEC is back in charge of the oil price



WHEN oil prices last approached $80 a barrel, a year ago, pundits put it down to the “fear factor”. Oil was not in short supply and stocks were increasing. But producers were pumping flat out, leaving little spare capacity. A nasty hurricane in the Gulf of Mexico or a political storm over Iran would, the theory ran, create a shortfall. When neither fear materialised and stocks continued to climb, the price quickly subsided. This time around, however, facts have replaced fears: the world is consuming more oil than it is producing.

Last summer, as stocks started to rise, Saudi Arabia began cutting back its production. These cuts were formalised, and extended, at subsequent summits of the Organisation of the Petroleum Exporting Countries (OPEC). As a result, OPEC's members are now producing roughly 1m fewer barrels per day (bpd) than they were this time last year. Meanwhile, global demand has risen by over 1m bpd, to over 84m. The inevitable result is falling stocks, at a time when they would normally be rising. Since 1999, stocks have grown by 840,000 bpd on average in the second quarter, according to Leo Drollas of the Centre for Global Energy Studies. This year, however, they fell by 140,000 bpd.

Traders, fearful of shortages later in the year, are pushing up prices. On July 16th, a barrel of Brent, Europe's benchmark crude, reached $78.40—within a whisker of the nominal record set last year. (West Texas Intermediate, an American benchmark, lagged slightly thanks to diminished demand from refineries under repair.) The same day, Goldman Sachs issued a report arguing that prices could rise as high as $95 a barrel later in the year unless OPEC opened the taps.

The International Energy Agency (IEA), a watchdog for oil-consuming countries, has also warned that supplies will be tight and prices high for several years to come. But this gloomy prospect rests on some rosy economic assumptions. The IEA reckons that oil consumption will accelerate this year and next, despite high prices. That calculation in turn presumes that the world economy will continue to grow smartly, shrugging off the cost of crude.

The grandees of OPEC presumably share the IEA's confidence. It is not in their collective interest to derail economic growth or destroy demand for their wares. If they thought the oil price was high enough to do real damage, it would make sense for them to expand production. Unlike last year, they now have roughly 3m bpd of spare capacity they could tap. But such reasoning assumes the cartel is more predictable than the hurricane season or the politics of the Middle East.

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The oil price

The visible hand on the tap

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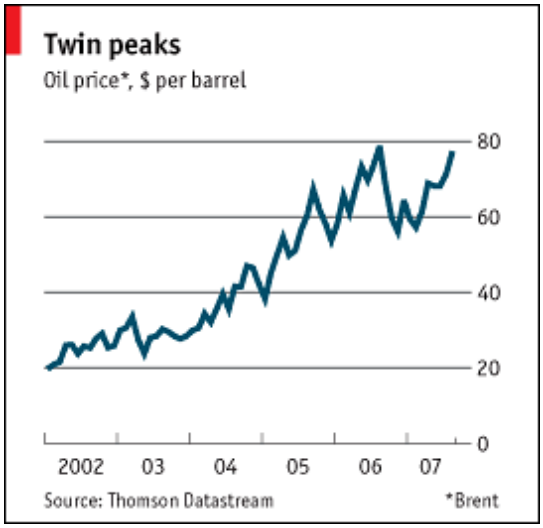
From The Economist print edition

OPEC is back in charge of the oil price



WHEN oil prices last approached $80 a barrel, a year ago, pundits put it down to the “fear factor”. Oil was not in short supply and stocks were increasing. But producers were pumping flat out, leaving little spare capacity. A nasty hurricane in the Gulf of Mexico or a political storm over Iran would, the theory ran, create a shortfall. When neither fear materialised and stocks continued to climb, the price quickly subsided. This time around, however, facts have replaced fears: the world is consuming more oil than it is producing.

Last summer, as stocks started to rise, Saudi Arabia began cutting back its production. These cuts were formalised, and extended, at subsequent summits of the Organisation of the Petroleum Exporting Countries (OPEC). As a result, OPEC's members are now producing roughly 1m fewer barrels per day (bpd) than they were this time last year. Meanwhile, global demand has risen by over 1m bpd, to over 84m. The inevitable result is falling stocks, at a time when they would normally be rising. Since 1999, stocks have grown by 840,000 bpd on average in the second quarter, according to Leo Drollas of the Centre for Global Energy Studies. This year, however, they fell by 140,000 bpd.

Traders, fearful of shortages later in the year, are pushing up prices. On July 16th, a barrel of Brent, Europe's benchmark crude, reached $78.40—within a whisker of the nominal record set last year. (West Texas Intermediate, an American benchmark, lagged slightly thanks to diminished demand from refineries under repair.) The same day, Goldman Sachs issued a report arguing that prices could rise as high as $95 a barrel later in the year unless OPEC opened the taps.

The International Energy Agency (IEA), a watchdog for oil-consuming countries, has also warned that supplies will be tight and prices high for several years to come. But this gloomy prospect rests on some rosy economic assumptions. The IEA reckons that oil consumption will accelerate this year and next, despite high prices. That calculation in turn presumes that the world economy will continue to grow smartly, shrugging off the cost of crude.

The grandees of OPEC presumably share the IEA's confidence. It is not in their collective interest to derail economic growth or destroy demand for their wares. If they thought the oil price was high enough to do real damage, it would make sense for them to expand production. Unlike last year, they now have roughly 3m bpd of spare capacity they could tap. But such reasoning assumes the cartel is more predictable than the hurricane season or the politics of the Middle East.

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Economics focus

Creeps and bounds

Jul 19th 2007
From The Economist print edition

Can America provide universal health care without adopting a government-run system?

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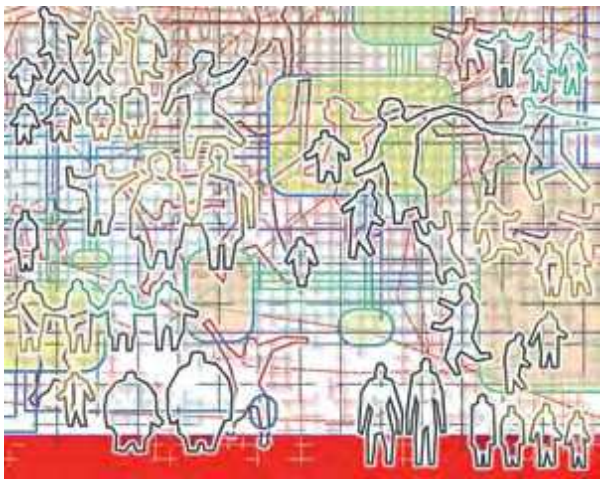

IT USED to be said that everybody talks about the weather but no one does anything about it. The same could now be said about universal health care in America. In recent months, the plight of the 47m or so Americans struggling without health insurance has become the talk of the town. Politicians, film-makers, union bosses and even Wal-Mart executives all now say the country must do something. What it must do is unclear.

How can America extend coverage to all without shifting to a government-run system? That question was put by the Brookings Institution, a think tank, to some of the country's leading health policy gurus. All are anxious to avoid the ferocious backlash faced by Hillary Clinton when she proposed a top-down approach in 1993, dubbed “Hillarycare” by its critics. This week four groups of scholars presented their solutions*.

The most radical proposal calls for universal vouchers that allow individuals to purchase insurance from private firms. Ezekiel Emanuel of the National Institutes of Health and Victor Fuchs of Stanford University want to distribute these vouchers free to individuals, who would use them to purchase health insurance from private firms. Americans would thus enjoy freedom of choice, but insurers would not: they would not be allowed to turn down individuals for any reason, regardless of risk. In turn, the government would pay a risk-adjusted premium to firms for covering sicker, more costly people.

Could the government afford it? It would save some money by scrapping the tax breaks it currently offers to employers for insuring their workers. But it would also have to raise fresh revenues from a new value-added tax of 10-12%. To control costs, the scheme envisions an independent agency that would assess the cost-effectiveness of new pills, devices and therapies and decide whether they should receive reimbursement.

Medicare rules

In contrast to this big-bang approach is a proposal that could be described as creeping universalism. Gerald Anderson and Hugh Waters of Johns Hopkins Bloomberg School of Public Health propose a relatively simple fix: keep expanding Medicare, the government's existing health plan for the elderly, until the uninsured problem goes away.

Their plan would first issue a mandate requiring both individuals and firms to arrange health insurance. Individuals would then buy insurance on the private market, as they do today, or through the expanded

Medicare programme—which will never deny coverage. If punters are too poor to afford insurance, the government will help with subsidies. Firms must either provide private insurance, as many do today, or they can offer the Medicare plan to all employees.

The authors argue that this would be the cheapest of all four options. Past experience shows that Medicare—which has great bargaining power with suppliers, and no need to market itself to clients—controls costs a bit better than the private sector. Since Medicare already covers elderly people, who are sicker and costlier than average, an expansion of the scheme can only lower its costs per person by bringing in younger, healthier individuals.

The two other plans unveiled this week offer ideas for reform that fall somewhere between the radical and the incremental. Stuart Butler of the Heritage Foundation, a think tank, is wary of dramatic proposals, which he is convinced Americans will not accept. At the national level, he would curb costs by putting a cap on the open-ended tax breaks currently showered on employer-provided health insurance.

He also wants to establish state-level insurance exchanges that would connect insurers with customers, and provide both firms and individuals with a greater choice of plans. Conceptually, this scheme is similar to the path-breaking reforms now underway in Massachusetts, which has a “Health Connector” up and running.

The big difference, however, is that Massachusetts obliges individuals to buy insurance or else face higher taxes. This requirement lowers premiums overall, by forcing relatively healthy, low-risk people into a system they might otherwise avoid. Their premiums help to cover the costs of people who are more likely to need health care.

Mr Butler does not support such a mandate, arguing that it is unenforceable and unfair unless accompanied by large subsidies to help poor people buy insurance. Massachusetts remains hopeful that it can enforce its mandate, but it has already let 60,000 people escape it, because it deemed them too rich to receive subsidies and too poor to afford insurance.

One of the architects of the Massachusetts reform also had his say at the conference. Jonathan Gruber, an economist at the Massachusetts Institute of Technology, thinks the state reform pioneered by Massachusetts should go national. He would keep the individual mandate and insurance connector, with a few tweaks based on experience.

For example, he now believes that Massachusetts was too generous with its subsidies for the poorest. In extending the plan to the national level, he proposes subsidies that are stingier, but which stretch further up the income scale. He would also abolish the open-ended employer tax breaks and impose a payroll tax on companies that do not offer health plans.

Which, if any, of these plans will take off? Perhaps all of them will eventually have their day. Lawrence Summers, a former treasury secretary under Bill Clinton, summed it up well: “Incrementalism is not enough, we need full and fundamental reform. But I suspect that Congress will do incremental reform for a while until it fails, and crisis forces radical change.”

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* The proposals are available at www.brook.edu/comm/events/20070717.htm

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Correction: Big Mac Index

Jul 19th 2007
From The Economist print edition

In our table on the Big Mac Index on July 7th (corrected online), we miscalculated the American-dollar value of a Big Mac in New Zealand. The correct price should have been $3.59, representing a 5% overvaluation of the New Zealand currency against the dollar. Sorry.

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Computer security

The bounty hunters

Jul 19th 2007
From The Economist print edition

Satoshi Kambayashi

An attempt to offer a legitimate outlet for hackers who want to earn an honest crust

HERE is a dilemma. Suppose you are a computer hacker and you discover a bug in a piece of software that, if it were known to the bad guys, would enable them to steal money or even a person's identity. It would be a feather in your cap. But feathers do not pay the rent. So how might you sell your discovery for the highest price? Asking for cash from the company that sold the buggy software in the first place sounds a bit like blackmail. The implicit threat is that if the firm does not stump up, the knowledge might end up in disreputable hands. But, in truth, it is mainly that possibility which gives the bug value in the first place. What, then, is a fair price, and who is to negotiate it?

Since economics, like nature, abhors a vacuum, a small industry of “security companies” has emerged to exploit the hackers' dilemma. These outfits buy bugs from hackers (euphemistically known as “security researchers”). They then either sell them to software companies affected by the flaws, sometimes with a corrective “patch” as a sweetener, or use them for further “research”, such as looking for more significant—and therefore more lucrative—bugs on their own account. Such firms seek to act as third parties that are trusted by hacker and target alike; the idea is that they know the market and thus know the price it will bear. Often, though, neither side trusts them. Hackers complain that, if they go to such companies to try to ascertain what represents a fair price, the value of their information plummets because too many people now know about it. Software companies, meanwhile, reckon such middlemen are offered only uninteresting information. They suspect, perhaps cynically, that the good stuff is going straight to the black market.

Last week, therefore, saw the launch of a service intended to make the whole process of selling bugs more transparent while giving greater rewards to hackers who do the right thing. The company behind it, a Swiss firm called WabiSabiLabi, differs from traditional security companies in that it does not buy or sell information in its own right. Instead, it provides a marketplace for such transactions.

Converting kudos to cash

A bug-hunter can use this marketplace in one of three ways. He can offer his discovery in a straightforward auction, with the highest bidder getting exclusive rights. He can sell the bug at a fixed price to as many buyers as want it. Or he can try to sell the bug at a fixed price exclusively to one company, without going through an auction.

WabiSabiLabi brings two things to the process besides providing the marketplace. The first is an attempt

to ensure that only legitimate traders can buy and sell information. (It does this by a vetting process similar to the one employed by banks to clamp down on money launderers.) The second is that it inspects the goods beforehand to make certain that they live up to the claims being made about them.

Herman Zampariolo, the head of WabiSabiLabi, says that hundreds of hackers have registered with the company since the marketplace was set up. So far only four bugs have been offered for sale, and the prices offered for them have been modest, perhaps because buyers are waiting to see how the system will work. A further 200 bugs, however, have been submitted and are currently being scrutinised.

If such bug auctions are to succeed, they will have to overcome a number of obstacles. One is that if the seller is too clear about what he is offering, the buyer might be able to figure out what is being offered without actually paying for it. Another is that the chance of someone else discovering a bug increases with time. A hacker thus needs to sell his find quickly, which requires the verification process to be streamlined. But perhaps the most significant snag to running a bug auction is a legal one.

Jennifer Granick, a lawyer at Stanford University who has studied the area for several years, reckons that if someone using a marketplace like WabiSabiLabi's went on to commit a crime with a bug they had bought there, then the owners of that marketplace could be in trouble. Under American criminal law, those owners would have to be shown to have been acting knowingly in order for a prosecution to succeed. A civil action, however, would have to demonstrate only recklessness.

In cowboy films, the goodies wear white hats while the baddies wear black ones. Computer hackers have adopted these symbols to describe, respectively, legitimate practitioners of their art and their nefarious counterparts. In becoming the first company to establish bug auctions, WabiSabiLabi may have breathed life into a third type of cowboy, the sort that sports a grey hat. And the field of hacking, through losing its moral certitude, may have grown up a little.

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Fatigue

Killing time

Jul 19th 2007
From The Economist print edition

Chronic fatigue may be a by-product of an anti-infection mechanism

TUMOUR NECROSIS FACTOR ALPHA sounds a pretty intimidating molecule. And, indeed, it is. One of its jobs is to kill cancer cells—or, rather, to persuade them to commit suicide. But its name is a bit misleading. For TNF-α, as it is known in the trade, does more than just shrink tumours. It is one of a group of proteins called cytokines that are used by the immune system to boss other body cells around. They do so by feeding the cells in question signals that cause them to switch particular genes on or off in response to infection.

Over the past few years, there have been hints that one of these responses is fatigue. Moreover, TNF-α has been implicated in fatigue that is not associated with infection. To look into this idea further, Thomas Birchler of Zurich University Hospital and his colleagues decided to study the effect of TNF-α on the biochemical clock that keeps bodies running in sync with the sun. Their results, just published in the *Proceedings of the National Academy of Sciences*, show that this effect is profound and may help to explain the phenomenon of chronic fatigue.

The genes that control the body clock are most active in parts of the brain called the suprachiasmatic nuclei. However, they are—like all other genes—found in almost all cells and are frequently studied in specially cultured fibroblast cells that are easy to work with. It was on these that Dr Birchler began his investigation.

Adding TNF-α to the fibroblast system did indeed throw a spanner in the works. Six of the clock genes were suppressed by the cytokine in ways that would, in an actual animal, be expected to promote sleep. So, having proved the point in a Petri dish, Dr Birchler and his colleagues went on to see whether that expectation would be realised. It was. The same biochemical changes took place in the brains of mice, and the mice in question were far less active than untreated mice.

As a response to infection, such inactivity makes sense. Just as fever (which is also controlled by cytokines) creates an environment hostile to the reproduction of bacteria and viruses, so lethargy conserves energy that can be directed to building up the immune system—an extremely demanding task. In both cases what look at first sight to be damaging symptoms caused by an infection are actually adaptive (though unpleasant) responses to it. However, even well-evolved systems can go wrong and, just as the immune system occasionally attacks the body it is supposed to be defending, causing a so-called autoimmune disease, so it looks as though the TNF-α fatigue response may sometimes appear at the wrong time.

One example of an autoimmune disease is rheumatoid arthritis. This is often associated with fatigue, and an experiment carried out last year by Louise Pollard of King's College, London, suggested TNF-α might be involved. Dr Pollard injected fatigue-ridden arthritis patients with a protein that binds specifically to TNF-α, and thus reduces its concentration in the body. Those who underwent this treatment felt less fatigued as a result.

It is also possible that TNF-α is the explanation for the scourge called chronic-fatigue syndrome. No one knows what this actually is, nor how it is triggered. Some researchers, though, think viral infection is involved. That would certainly activate the immune system, encouraging TNF-α production—and enhanced levels of TNF-α have, indeed, been reported in people with chronic fatigue syndrome. This has generally been thought of as a symptom—and as support for the infection theory of the syndrome. But perhaps it is the cause. If so, reducing the cytokine's level in sufferers might bring them some relief.

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Mobile commerce

Pay-as-you-talk

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From The Economist print edition

Voice biometrics let you speak, rather than sign, on the dotted line

WHAT could be simpler than ordering things from your mobile phone, and using the same device to pay for them? Well, quite a few things, as it happens, for the task of punching in your payment details is just as tedious as it would be if you were using any other machine.

That could, however, change if Nick Ogden has his way. For Mr Ogden thinks he has devised a method of payment by phone that is both friendly to the user and secure. It is secure because it relies on a biometric signal that is at least as hard to forge as the signatures that routinely authorised transactions before the invention of the personal identification number. And it is friendly because all you have to do is use the phone in the way it was intended, by talking into it.

VoicePay, as Mr Ogden's company is known, relies on voice-recognition software developed by a firm called VoiceVault. This software works by analysing 117 parameters of an individual's voice to build up a profile of his vocal tract. From this, according to Vance Harris, VoiceVault's chief technology officer, the program is able to predict how his voice should sound regardless what he is saying. It should also be immune to confounding variables such as background noises and bad hangovers.

To use VoicePay's service, customers have first to set up an account. That takes about five minutes and involves calling from the phone the customer wishes to be registered with the account. After he has chosen a username and a password, and given details of a payment card, the customer is asked to repeat a series of randomly generated numbers so that the software can register and parse his speech patterns.

According to Mr Ogden, people will be able to use the service in two different ways. The first relies on a nine-digit, product-specific code number that might, for example, appear in an advertisement for the item in question. The customer would have to type this number on his phone's keypad because, for all its biometric bells and whistles, the VoiceVault program is not voice-recognition software of the sort that can be used to dictate documents. An automated voice will then ask him to repeat two randomly generated four-digit numbers. If he passes this test, the voice will list the items being bought and ask for confirmation. To authorise the transaction all he need say is “yes”.

The second way to use the system is via a web page such as one in an online store. In this case the customer clicks on a special VoicePay icon and enters his name and password. Shortly afterwards his phone will ring and a similar authentication process to the one above can take place.

The obvious catch is that the only products which can be bought using VoicePay are those registered with the service—the more people use it, therefore, the more valuable it becomes. But this phenomenon, known as the network effect, is common to a lot of technologies, and VoicePay is already being evaluated by several of the banks and credit-card companies whose collaboration will be needed to encourage the network's growth.

The other catch is that it still requires product codes to be keyed in, at least when the customer is buying directly over the phone. One solution to this may be a better version of VoiceVault's software—one that can recognise what numbers mean as well as how they are pronounced. Another would be to translate the numerical code into a bar code that could be snapped and recognised by the built-in cameras that adorn so many modern phones.

As to the question of someone trying to “forge” another's voice print, experiments employing actors suggest this is pretty hard, since the clues the software relies on depend on the actual shape of the larynx. Of course, there is the remote possibility that two people will have larynxes—and therefore voice prints—so similar that they confuse the software. However, the chance that those people will also have access to the same phone is negligible—unless, perhaps, they are identical twins.

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Human evolution

The skull man

Jul 19th 2007
From The Economist print edition

Skulls join genes in suggesting an African origin for modern man

IN THEORY, the story that bones tell about the origins of the human race and the story that genes tell should be the same. In practice, they often start off different. Forty years ago, for example, palaeontologists thought that hominids, the group of primates that includes modern humans, had been distinct from other apes for some 25m years. Molecular biologists, however, reckoned 5m years a better estimate. With the discovery of more fossils, that has become the accepted number.

Another conflict between palaeontologists and molecular biologists seems to have been similarly resolved. Since 1987 molecular biologists have believed on the basis of DNA evidence that modern humans—*Homo sapiens*—originated in Africa and then spread around the world. Many palaeoanthropologists, though, disagreed. They claimed their skulls showed that modern humans had evolved all over the world from local populations of an earlier species called *Homo erectus*.

Well, they didn't. In this week's *Nature*, Andrea Manica of the University of Cambridge and his colleagues show that the skull data and the genetic data actually agree with each other—and that, once again, the molecular biologists were right.

The reason it has taken so long to come to this conclusion is that although genetic data are easy to obtain and interpret, cranial measurement is a laborious art. The breakthrough was the inclusion in the team of Tsunehiko Hanihara, of Saga Medical School in Japan, who has spent much of his life measuring skulls in various museum collections around the world. That means his data are preciously consistent (he always takes the same 37 measurements). But he had never before published them all as a single body of work.

Altogether, Dr Hanihara has measured 4,666 male skulls and 1,579 female ones, drawn from 105 groups of people from all six inhabited continents. Dr Manica's task was to show that these varied in the same way as human genetic data do.

One of the main lines of evidence for the “Out of Africa” hypothesis, as it is usually known, is that the most genetically varied human populations are in that continent—particularly in the south and east of it. The farther you go from Africa, the less genetic variety there is, because in a rapidly dispersing population genetic variety is lost faster by random failures to breed than it is replenished by evolution.

If the “Out of Africa” hypothesis is right, that decreasing variability should be reflected in skull shape—since this is ultimately under genetic control. As far as skulls are concerned, there is one confounding variable: climate. Things such as nostril size vary with temperature and humidity in ways that suggest evolution is at work. Since Dr Manica was looking for effects other than those produced by natural selection, those things had to be eliminated. Which he did.

Using what was left, he estimated the amount of diversity in groups of skulls from different parts of the world using a statistical technique called multiple-regression analysis, and compared the resulting map with a similar map of genetic diversity. The two matched perfectly. There was no room for the influence of local populations of *Homo erectus*.

That, Dr Manica hopes, should be enough to bury the multiregionalist hypothesis, as the bone-based alternative to “Out of Africa” is known, once and for all. What it does not help answer is the question of whether modern humans left their African homeland once or many times. Some researchers suggest the world was peopled in two waves. The first took humans to Australia about 50,000-60,000 years ago, when rambling the length of Indonesia without getting your feet wet was possible. The second wave took them to Tierra del Fuego, the farthest scrap of land that can be walked to from Africa (at least during ice ages, when the Bering Strait can be traversed). Others prefer just the one exodus. As is often the way, an external threat is a uniting influence. But now the multiregionalists have been seen off, the “Out of Africa” winners can join battle among themselves.

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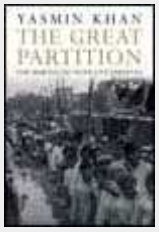
The partition of India

The unruly end of empire

Jul 19th 2007
From The Economist print edition

An epic tragedy brought about by hubris, confused thinking and lack of planning

The Great Partition: The Making of India and Pakistan
By Yasmin Khan



Yale University Press; 288 pages; £19.99. To be published in America by Yale in September

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Getty Images

SIXTY years ago this August one of the greatest and most violent upheavals of the 20th century took place on the Indian subcontinent. It was an event whose consequences were entirely unexpected and whose meaning was never fully spelled out or understood either by the politicians who took the decision or the millions of Muslims, Hindus and Sikhs who were to become its victims. In 1947, faced with irreconcilable differences over the demand for a separate state for India's Muslims, Britain decided, with the consent of a majority of India's political leaders, to partition the country and give each bit its independence. Tragedy followed.

The break-up of Britain's Indian empire involved the movement of some 12m people, uprooted, ordered out, or fleeing their homes and seeking safety. Hundreds of thousands of people were killed, thousands of children disappeared, thousands of women were raped or abducted, forced conversions were commonplace. The violence polarised communities on the subcontinent as never before. The pogroms and killings were organised by gangs, vigilantes and militias across northern, western and eastern India.

They were often backed by local leaders, politicians from Congress and the Muslim League, maharajahs and princes, and helped by willing or frightened civil servants.

Yasmin Khan, a British historian, has written a riveting book on this terrible story. It is unusual for two reasons. It is composed with flair, quite unlike the dense, academic plodding that modern Indian history usually delivers. Second, it turns the spotlight away from the self-posturing in the British viceroy's palace and the well-documented political wrangling between Congress and the Muslim League leaders. Instead, it focuses on a broader canvas that leads the reader through the confusion, the uncertainties, the fear and eventually the horror faced by those who were soon to become citizens of the two new states, India and Pakistan.

Today the upheaval on both sides of the partition line would be described as ethnic cleansing on a gigantic scale. It left two traumatised, injured nations—suspicious and fearful of one another even to this day—where once there had been one country of loosely interwoven peoples. Pakistan's present military ruler, General Pervez Musharraf, himself a child of partition, calls India “the arch-enemy”. Such thinking has become instilled on both sides—an outcome unthinkable to all those involved in the independence movement.

The decision to divide India on religious lines was taken with regret but little foreboding and carried out with outrageous haste and unconcern by the British government and its viceroy in India, Lord Mountbatten. Asked by a journalist if he foresaw any mass transfer of population, Mountbatten said, “Personally I don't see it...Some measure of transfer will come about in a natural way...perhaps governments will transfer populations.”

No preparation or consideration was given to the central issues of citizenship, security and property rights in the division of the country. On the other hand, India's civil servants, the *babus* of empire, were busy itemising every fixture in their offices down to ink pots and paperweights that were to be divided between Pakistan and the new India. Lack of planning, hubris, confused thinking and a complete void as to the consequences were the fatal flaws in the partition plan, writes Ms Khan.

The announcement that India was to be partitioned and independence would follow not less than a year later was made in the House of Commons on June 3rd 1947. By August 15th the British were gone. They accepted no responsibility for the carnage that was taking place and they refused to allow the British troops still in India to keep order or protect people.

The movement of people and the privations they suffered were extraordinary. Muslims made their way west to Pakistan; Sikhs and Hindus moved east to India in “foot convoys” that involved 30,000-40,000 people, wagons, carts and animals spread out over 45 miles (70km). In one month 849,000 refugees entered India by foot. Trains that were impossibly overloaded, and dangerously targeted by the killers, ran across Punjab from Rawalpindi and Lahore to Amritsar and Delhi and back again as soon as they had refuelled and watered. Many families left for reasons of safety, taking only a few belongings because they expected to return. Not everyone imagined the journey across the partition line would be final.

When Jawaharlal Nehru made his famous speech on August 15th declaring that at the midnight hour, when the world slept, India would awake to life and freedom, massacres were taking place almost daily on both sides of the line. Nehru later wondered if his fellow countrymen knew how close India had come to imploding. The violence was simply uncontrollable.

Despite the pledges of equality for all communities in the new India and Pakistan, the driving force behind the violence was to eliminate or devour the other community, writes Ms Khan. It took the shock of Mahatma Gandhi's assassination on January 30th 1948—by a Hindu extremist opposed to Gandhi's conciliatory policy towards Muslims and his peace overtures to Pakistan—to stem the violence and bring India, especially, to its senses.

The illusions of partition are not overlooked by Ms Khan, including the premise that a common religion is strong enough glue to hold different and suppressed ethnic groups together in a nation state: Bangladesh, once East Pakistan, is the prime example of how wrong that premise can be. Above all, she nails the propaganda lie that the transfer of power in India was an example of peaceful decolonisation that the rest of the world could follow. The unruly end of empire in South Asia was “a shock of epic proportions”, she writes. It was ill-conceived, unplanned and only just escaped from spiralling into an even more devastating civil war.

The Great Partition: The Making of India and Pakistan.

By Yasmin Khan.
Yale University Press; 288 pages; £19.99. To be published in America by Yale in September

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The craft of journalism

Dispelling one's own ignorance

Jul 19th 2007
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WHEN Ryszard Kapuscinski, a Polish writer and journalist who died last January, set off on his career in the early 1950s, he felt like a foreign particle released into a wholly unfamiliar world. Fortunately, thanks to the timely gift of a book, he found a companion who helped to sustain him, personally and professionally, throughout his life. This unusually companionable companion, who died 2,500 years before Kapuscinski himself was born, was a Greek historian, Herodotus, author of "Histories", a momentous account of a first great clash of civilisations: that between the despotic Asia of Persia and the democratic Europe of Greece.

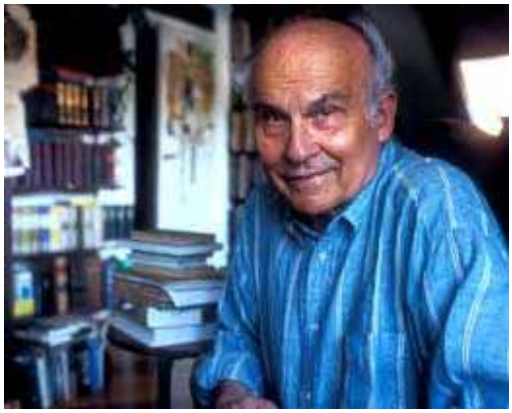
Travels with Herodotus
By Ryszard Kapuscinski

Knopf; 275 pages; $25.
Allen Lane; £20

Buy it at
Amazon.com
Amazon.co.uk

Most of Kapuscinski's writings were tightly focused: his best-known work, "The Emperor", is an account of the dying days of Haile Selassie's regime in Ethiopia. "Travels with Herodotus" is, by contrast, much more wayward, more serendipitous. It begins in the 1950s, but then starts flitting about as Kapuscinksi himself flitted from continent to continent, learning the journalistic trade of which he finally proved to be such a master.

AFP



A Polish master craftsman

How did the first historian of ancient Greece help a journalist from post-war Poland to get a handle on the slippery world? In many ways, it turns out. Herodotus taught Kapuscinski certain human and reporting skills which no amount of technology could have offered. Among these were tenacity, humility and the simple art of having first asked one source a question, to ask it again of another and compare the answers. It sounds almost disarmingly simple: to wander, to talk, to look, to listen. Herodotus also taught Kapuscinksi the value of self-doubt and—the two go hand-in-hand—rabid, insatiable curiosity.

The life of a journalist such as Kapuscinski consists of untold fruitful deflections. One month he is in India. Then, at the drop of a hat, China is assigned as his patch. He is equally ignorant in both places. But any good journalist, like Herodotus himself, is driven on by an awareness of his own shocking ignorance. And it is that overwhelming need to dispel those clouds of ignorance, to find meaning and pattern amid the world's ceaseless tumult, that drives the serious reporter on.

Herodotus not only travelled to the outermost limits of the known world. He also wanted to explain to other people, without windy obfuscation, what he had seen himself and found out from others. Like Kapuscinski, he discovered that the world was odd and surprising. And, having come upon those thousands of instances of wonderment, he wrote them down because he had a burning need to preserve what he had found. Why? Because human memory is so fragile. Everything gets lost, so easily. He also discovered that there is no such thing as the past. There are, at best, infinite renderings of the past.

Travels with Herodotus.
By Ryszard Kapuscinski.
Knopf; 275 pages; $25.
Allen Lane; £20

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The Depression

Sticking pins into an icon

Jul 19th 2007
From The Economist print edition

ECONOMISTS turn over the hows and whys of the Depression in much the same way as statesmen once reflected on the decline of Rome or the eclipse of Athens by Sparta. It seems to have played an outsize role in determining how we got from there to here. John Maynard Keynes, J.K. Galbraith and Milton Friedman all used it as a testing-ground for their ideas. Ben Bernanke, who tweaks the direction of the world economy from his office at the Federal Reserve, has published a book of essays on Depression economics.

That kind of company might put most authors off, so Amity Shlaes, a columnist with *Bloomberg*, should be congratulated for squaring up to them. Except that she does not really, choosing instead to walk past the ring. Her book is economic history largely free of economics. There are no charts and few statistics. Although this might be a relief for readers who spend their days poring over data, it hobbles the thesis of the book, which is an economic one. It is as follows: that the 1929 crash on Wall Street need not have led to the Depression. What might have been an ordinary cyclical downturn was turned into a cataclysm by bad politics. The New Deal then made matters worse, prolonging the Depression.

The Forgotten Man: A New History of the Great Depression
By Amity Shlaes

HarperCollins; 480 pages; $26.95.
Jonathan Cape; £25

Buy it at
Amazon.com
Amazon.co.uk

Like some of the best James Bond films, the villain of her story was in a wheelchair: Franklin Roosevelt, America's president from 1933 to 1945. She argues that through business-bashing and big government programmes, Roosevelt kept unemployment high. Rather than standing up for the forgotten man of the book's title, he forgot about all the people who were just trying to get along, helping themselves rather than waiting for the government to come to their rescue. Ms Shlaes also thinks that Roosevelt had a damaging, lasting effect on American politics.

All this is rough on Roosevelt, who made plenty of mistakes and played loose with the constitution but is still one of the most formidable presidents that America has ever had. Even Ms Shlaes, who appears sceptical about how much real power politicians wield, admires his combination of charm and chutzpah. One of her heroes is Calvin Coolidge who, sensibly, “had long ago determined that the world would do better if he involved himself less.” But a spectator-presidency of this sort would have had little appeal once one in five workers had nowhere to go in the mornings.

Ms Shlaes tends to look at the Depression in terms of the conflict between business (good) and politics (bad). At the time, though, Roosevelt's view that the “lack of honour of men in high financial places” was at the root of the trouble seemed like a statement of the obvious, rather than a political pose. Even Henry Ford had been uttering warnings that “the Jews of Wall Street”, as he so nicely called them, had stored up trouble in the 1920s. The Depression appeared to prove him right.

Much of the book is taken up with judgments on the people who were trying to remake the world from Washington. Apart from a brief cameo about the Schechters, a family of poultry farmers from New York whose case before the Supreme Court (they had insisted that customers had the right to choose the chickens they wanted) helped to fell Roosevelt's National Recovery Administration, the book features few forgotten men. This is odd, given the richness of the material available on everyday life during those harsh times.

One of the reasons that the Depression is of interest to economists is that it reverberated through the world, a global economic event before globalisation took hold. And yet there is little in the book on the course that it took outside America. Within a few years of the crash, 16 countries suffered military coups or takeovers by strongmen in Latin America alone. That adds up to an awful lot of men forgotten.

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New fiction

Life among the frozen Chosen

Jul 19th 2007
From The Economist print edition

DON'T start this novel at the end. Michael Chabon's list of acknowledgments is so long—it includes all the dictionaries he used to source Yiddish expressions—that it marks out the author as surely too pedantic and too boring for there to be any chance that he might also be talented.

Start it at the beginning, though, and you are in for a treat, not just for the electric charge of Mr Chabon's writing but for a story more finely plotted than any published this year. As in Philip Roth's 2004 bestseller, "The Plot Against America", Mr Chabon's story is predicated on a distortion of history. The state of Israel was overrun just three months after its birth in 1948 and its dispossessed Jews were offered a temporary safe haven in the form of a 60-year lease on a chunk of Alaska that became known as the Federal District of Sitka.

When the story opens, the Alaskan lease is about to end and the "frozen Chosen" face resettlement and exile all over again. It is a strange time to be a Jew. And few feel that as keenly as Mr Chabon's hero, a loser of a detective named Meyer Landsman, who finds a dead body in the flophouse he calls home on the book's very first page. Landsman's life is a shambles. His marriage has collapsed, he can't solve any of his previous cases and his new supervisor is the love of his life and his worst nightmare: his ex-wife.

The result is a gripping whodunnit that tips its cap to Raymond Chandler and 1940s *film noir*. Mr Chabon's publicists boast that the author's main aim is an exploration of the mysteries of exile and redemption. Well, maybe. But that is also missing much of the point. Which is that Mr Chabon is as confident pirouetting round words as he is in his depiction of his characters.

The powerful Verbover sect, with their Talmudic grasp of systems, their deep pockets and the impenetrable face they present to the world, are there in all their corrupt, greedy fecundity trying to rig a plot that involves multiple murders, the breeding of a (fake) sacred red heifer and the return of the Messiah, all to ensure their return to Jerusalem. No one but Mr Chabon could have written it.

The Yiddish Policemen's Union.
By Michael Chabon.
HarperCollins; 432 pages; $26.95.
Fourth Estate; £17.99

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By Michael Chabon

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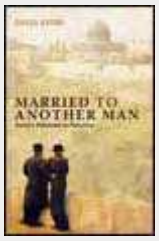
Israel and Palestine

The one-state option

Jul 19th 2007
From The Economist print edition

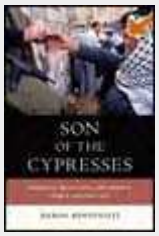
Married to Another Man: Israel's Dilemma in Palestine
By Ghada Karmi



Pluto Press; 315 pages; $22.95 and £14.99

Buy it at
Amazon.com
Amazon.co.uk

Son of the Cypresses: Memories, Reflections, and Regrets from a Political Life
By Meron Benvenisti



University of California Press; 253 pages; $27.50 and £17.95

Buy it at
Amazon.com
Amazon.co.uk

SURVEYS find that an overwhelming majority of Israeli Jews and a sizeable majority of Palestinians still want their own states. But as one peace plan after another has foundered, the voices calling for the two peoples to live as equal citizens in one country are slowly multiplying.

Ghada Karmi, who fled Palestine with her family during the 1948 war and grew up in Britain, wrote a moving memoir of the Palestinian refugee experience in her previous book, “In Search of Fatima”. In “Married to Another Man”, she traces the consequences of the creation of a state primarily for Jews in a land previously inhabited mainly by Arabs.

Like Ali Abunimah, an American son of Palestinian refugees whose book, “One Country”, was published last year, she believes that Zionism was an aberration, that the two-state solution has been proved unworkable and that one state is the only answer. But whereas Mr Abunimah restricted himself to a tightly argued account of why peace processes have failed and an idealistic but thought-provoking outline of a one-state proposal, Ms Karmi bludgeons home her belief that Israel should never have existed in the first place. Her sometimes intriguing, sometimes dubious arguments about why Zionist ideology was a fraud and the Jews were never really a nation echo Golda Meir's infamous claim that “there is no such thing as a Palestinian people”. There follows an unabashedly one-sided dissection of all the damage that Israel has done not just to the Palestinians but to the world.

For anyone who wants a primer on delegitimising Israel this is fine, but it is hardly, as Ms Karmi says she intends, something that makes debate about a one-state solution “part of the mainstream discourse”. By the time she gets to that idea, she seems out of breath; she offers little more than a cursory review of the existing literature, with brief and implausible suggestions as to how a single state of equal citizens might actually come about.

Meron Benvenisti's “Son of the Cypresses” is also a tirade against Israel's attempt to wipe the Palestinians from the map both physically and historically. But it comes from someone who still calls himself a Zionist. Born in mandate-era Jerusalem five years before (and a couple of miles from) Ms

Karmi, Mr Benvenisti was steeped in the idealistic ethos of socialist Zionism, but became disillusioned over the course of a long career in politics and academia. Eventually he concluded that Israel's nationalist narrative of the conflict, implying a certain parity between the two sides, was merely how his countrymen had dressed up what was really a colonialist struggle between conquerors and natives; and that if a two-state solution had ever been possible, Israel had pushed it beyond reach with its aggressive policy of settlement in the occupied territories.

If Ms Karmi's views were shaped by the experience of being a refugee, Mr Benvenisti's are, he wryly acknowledges, partly the product of a “delayed filial rebellion” against his father, a Zionist educator who preached love of the land while disregarding its previous inhabitants. Any approach based on separating two peoples with so intimate a connection to the same land, is, argues Mr Benvenisti, bound to fail.

He offers a richly layered account of the fractures in Israeli society, and of the myths out of which Israeli politicians and intellectuals have woven a national identity that, he says, renders any peace process automatically self-defeating. Unfortunately he makes little effort to marshal his arguments into a tale the reader can follow. This turns his book—billed as “part memoir, part political polemic”—into a jumpy diatribe against everyone who has contributed to Israel's self-deception.

And when it comes to the one-state solution that both he and Ms Karmi advocate, his review of possible options again skirts around the single hardest question: how to change the minds of the 99% of Israeli Jews who believe they must live in a state with a Jewish majority to avoid another Holocaust. The book that offers a plausible scenario for that has yet to be written.

Married to Another Man: Israel's Dilemma in Palestine.
By Ghada Karmi.
Pluto Press; 315 pages; $22.95 and £14.99

Son of the Cypresses: Memories, Reflections, and Regrets from a Political Life.
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Cabaret in New York

A circus for grown-ups

Jul 19th 2007
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Spiegelworld is back on the East River

La Vie

Sex in the air

PIER 17 in downtown Manhattan is not the most likely destination for theatre-goers. But here on the East River, among the wailing seagulls, frying fish and tourists, is an enchanting offer of entertainment. Spiegelworld is back in town for its second summer, with two spicy cabaret shows of dance, music, acrobatics and burlesque. Called “Absinthe” and “La Vie”, the shows are staged in the anachronistic opulence of a *spiegeltent* (Flemish for “tent of mirrors”).

Nobody seems to know how many of these European pavilions are left but most people agree that there are fewer than 20. Built by hand without nails, *spiegeltents* are beautiful assemblies of teak, velvet, stained glass and bevelled mirrors, created originally in Belgium in the early 20th century as mobile dance halls.

Only two families in Belgium and the Netherlands still know how to make them, producing one every five or ten years or so, says Vallejo Gantner, one of the show's producers and a long-time *spiegeltent* aficionado. “But you know it when you walk into an old one. They have a special boutique quality.”

This one, which dates from the 1920s and has a painted art-nouveau façade, lends continental glamour to the pier. It holds about 350 people on wooden chairs and banquettes around a modest, circular stage. And it is this intimacy, this proximity to the performers, that gives these shows their special feel. Erotic contortionists, balletic hand-balancers and bawdy jugglers emanate a sweaty, tangible humanity. Many of them, Mr Gantner explains, have left larger circus troupes, such as Cirque du Soleil, in order to make eye-contact with their audience. The simplicity of the staging gives their performances a gritty authenticity.

Once in a while, a family on a children's outing is fooled by Spiegelworld's festive red-and-blue tent spires. Make no mistake: the shows are for adults. “La Vie”, created by Les 7 Doigts de la Main, a Montreal-based troupe, laces an array of artfully sexy circus acts with the premise that everyone is dead and in purgatory, travelling on “a flight to hell that never quite gets there”. Wearing what looks like a straitjacket, a contortionist moves in a highly unsettling way to a recording of “Crazy”, crooned by Patsy Cline. The show closes with a steamy *pas de deux* between the devilish master of ceremonies and the evening's lip-curling seductress.

“Absinthe” is a more explicit grab-bag of stripping, cross-dressing and intrigue, without a unifying theme. The show's strongest moments come from the acrobats, all of whom carry a powerful sexual charge. Two women sway with suggestive grace on the trapeze. An aerialist in black trousers, his sculpted chest glistening, pulls and twists himself up two hanging straps to the lusty music of “Jealous Guy”, sung by a transvestite diva.

Sexy but not tawdry. Despite colourful language and a brief moment of unnecessary male nudity in “La Vie”, the setting is too elegant and the talent too astonishing for that. It's a bit of risqué fun that has been warmly received by New Yorkers, many of whom have grown tired of the wholesome, tourist-friendly fare of Broadway. Last summer “Absinthe” ran for two months to sell-out crowds; this year's two-show programme is for three months until the end of September.

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Lady Bird Johnson

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Claudia Alta (Lady Bird) Johnson, first lady and environmentalist, died on July 11th, aged 94

Corbis

NOVEMBER 22nd 1963 started in drizzle, but soon turned bright. The sun shone on Dallas, the breeze was light, and Lady Bird Johnson enjoyed the drive in the open limousine, even when the Secret Service man thrust her husband down to the floor, even when the car screeched so violently round the corner by the hospital that she feared they would be flung out of it. Looking towards the first limousine, she saw what looked like “a drift of pink blossom” on the back seat. It was Jackie Kennedy lying across her dying husband.

Mrs Johnson saw beauty even at that moment, when her life turned upside down. It was instinctive; she could not help it. Her lonely, motherless childhood had been made bearable by roaming the pinewoods, fields and bayous round Karnack in east Texas, delighting in magnolia blooms and the first spring daffodils and the touch of Spanish moss against her face. She found beauty, too, in a marriage to Lyndon Baines Johnson that seemed to friends, at least for its first 20 years, to be a sojourn in hell.

She knew he was a handful at first sight: lanky and good-looking, impossibly full of himself and his political ambitions, bossing her about from the first date onwards, rushing her so precipitately into marriage in November 1934 that they had neither a proper ring nor flowers. But he gave her “a queer sort of moth-and-flame feeling”, so she followed. The orders continued: to bring him breakfast in bed, to have a hot meal ready whenever he and his congressional cronies came home, to serve him seconds instantly (“Bird, bring me another piece of pie!”). A snap of his fingers, and she would run across the room. A public dressing down for her dowdiness and shyness (“Bird, why can't you look nice, like Connie here?”), and she would take it on the chin. Her unwavering smile would make the house beautiful. Her steadiness would calm Lyndon down. And it was love and orderliness, rather than subservience, that made her lay out his clothes each morning with his pen, filled up, in one suit pocket and his cigarette lighter, filled up, in another, and the cufflinks in the shirt-cuffs, and the shoes shined.

She applied the same sense of grace and neatness to America. Long before it was fashionable, she encouraged Americans to care for the place they lived in. From 1938 onwards, as Lyndon rose from congressman to senator to vice-president to president, she fretted about the junkyards and billboards that lined the highways between Texas and Washington, DC, vowing to replace them with bluebonnets and pink morning primroses. Driving through Washington itself, she imagined the weed-filled parks and triangles filled with dogwoods, azaleas, tulips and chrysanthemums, red oaks rising on Connecticut Avenue, crape myrtles throwing shade over F Street. As first lady, starting in 1964, she filled the city with flowers.

It seemed to some a lightweight occupation, especially at a time when her husband was being sucked into the slough of Vietnam. But Mrs Johnson had the solid core of a determined southern liberal. She had brought her own money to the marriage (money enough to give her, at 16, a Buick to drive to school and

an unlimited charge account at Neiman Marcus), and used it both to bankroll Lyndon's first run for Congress and to buy a low-power radio station, KTBC, which made the family a telecoms fortune. The mouse, ignored at her own parties, would note the books people mentioned and go away and read them herself. For months at a time, when Lyndon was on navy service or felled in 1955 with a heart attack, she ran his office. During the 1964 campaign she found the strength to make speeches and train tours through the South in the cause of civil rights. In the White House, as her husband battled with demons of drink, heart disease, depression and the war, she became indispensable to him.

Just as beauty was indispensable to the country. When she first conceived “beautification” (a “prissy” word, one that never pleased her), she found it was like “picking up a tangled skein of wool; all the threads are interwoven—recreation and pollution and mental health, and the crime rate, and rapid transit and the war on poverty, and parks...everything leads to something else.” Her efforts in Washington included clearing rubbish and trapping rats in run-down projects, in order to plant white azaleas there. Her own version of Lyndon's great social programmes began, as her Aunt Effie had begun with her, by “opening [the] spirit to beauty”.

Lyndon, too, was now on board, pushing her bills through Congress for her. A presidency remembered for horror abroad and disintegration at home also made green politics legitimate. She made sure her husband resigned in March 1968, inserting into his speech the words that made it irreversible, but did not keep him long thereafter. More than 30 years of widowhood were spent campaigning nationally for preservation and conservation of the landscape and wild flowers.

At the end of her life, almost blind, she saw what she could: the “mighty big” clouds above Texas, or single blooms through a magnifying glass. Failing this, she would listen to the birds. Before that beauty, the years of chaos at the heart of American politics would recede like some extraordinary dream.

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Overview

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China's economy continues to defy the government's efforts to restrain it. Its GDP grew by 11.9% in the year to the second quarter, its quickest pace for 11 years. Consumer-price inflation rose to 4.4% in the year to June, once again exceeding the central bank's target of 3%.

Oil prices rose following reports of a steep drop in American inventories. The benchmark price of a barrel of Brent crude briefly rose to $78.40 on July 16th, just 24 cents below the record level set last August, before easing back in midweek.

Consumer prices in **America** rose by 0.2% in June and by 2.7% from a year earlier. The price index excluding food and energy also rose by 0.2% in the month, leaving it 2.2% higher than last June. Industrial production rose by 0.5% in June and by 1.4% from a year earlier. Housing starts rose by 2.3% in June, but from a level in May that was 2.7% lower than previously estimated. Permits authorising future housebuilding fell by 7.5% in June to their lowest level in a decade.

Britain's jobless rate edged down from 5.5% to 5.4% in the three months to May. Consumer prices rose by 2.4% in the year to June, down from 2.5% in May, but still above the government's target of 2.0%.

Industrial production in **Russia** rose by 10.9% in the year to June.

Brazil's central bank cut its benchmark interest rate by half a percentage point to 11.5% on July 18th.

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Output, prices and jobs

Jul 19th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+1.9 Q1	+0.7	+2.1	+2.7	+1.4 Jun	+2.7 Jun	+4.3	+2.7	4.5 Jun
Japan	+2.6 Q1	+3.3	+2.6	+2.3	+3.7 May	nil May	+0.1	−0.1	3.8 May
China	+11.9 Q2	na	+10.3	+9.7	+19.4 Jun	+4.4 Jun	+1.5	+2.8	9.5 2006
Britain	+3.0 Q1	+2.8	+2.8	+2.4	+0.6 May	+2.4 Jun**	+2.5	+2.4	5.4 May††
Canada	+2.0 Q1	+3.7	+2.5	+2.7	−0.7 Apr	+2.2 Jun	+2.4	+2.3	6.1 Jun
Euro area	+3.0 Q1	+2.4	+2.7	+2.3	+2.5 May	+1.9 Jun	+2.5	+2.0	7.0 May
Austria	+3.5 Q1	+3.6	+2.9	+2.6	+9.1 Apr	+2.0 Jun	+1.5	+1.8	4.3 Jun
Belgium	+2.9 Q1	+2.9	+2.6	+2.3	+1.8 May	+1.3 Jun	+1.9	+1.8	10.5 Jun‡‡
France	+2.1 Q1	+2.4	+2.0	+2.1	−0.3 May	+1.2 Jun	+1.9	+1.5	8.1 May
Germany	+3.6 Q1	+2.1	+2.8	+2.3	+4.6 May	+1.8 Jun	+2.0	+1.9	9.1 Jun
Greece	+4.6 Q1	na	+3.7§	+3.2§	+0.3 May	+2.6 Jun	+3.2	+2.6§	8.4 Apr
Italy	+2.3 Q1	+1.1	+1.9	+1.7	+0.9 May	+1.7 Jun	+2.3	+1.8	6.2 Q1
Netherlands	+2.5 Q1	+3.6	+2.7	+2.6	+2.2 May	+1.7 Jun	+1.7	+1.8	4.6 Jun††
Spain	+4.1 Q1	+4.6	+3.7	+2.8	+2.4 May	+2.4 Jun	+3.9	+2.6	8.2 May
Czech Republic	+6.1 Q1	+6.1	+5.3	+4.9	+7.5 May	+2.5 Jun	+2.8	+2.6	6.3 Jun
Denmark	+2.3 Q1	+2.2	+2.2	+2.0	−4.3 May	+1.4 Jun	+2.1	+1.9	3.6 May
Hungary	+2.7 Q1	+2.4	+2.6	+3.1	+5.7 May	+8.6 Jun	+2.8	+6.8	7.3 May††
Norway	+2.8 Q1	+2.9	+2.7§	+2.5§	−3.9 May	+0.4 Jun	+2.1	+0.8§	2.7 May††
Poland	+7.4 Q1	na	+6.0	+5.3	+8.1 May	+2.6 Jun	+0.8	+2.2	13.0 May‡‡
Russia	+7.9 Q1	na	+6.7	+6.4	+10.9 Jun	+8.5 Jun	+9.1	+8.2	6.9 May‡‡
Sweden	+3.0 Q1	+2.6	+3.5	+3.2	+3.6 May	+1.9 Jun	+1.5	+1.8	3.9 May††
Switzerland	+2.4 Q1	+3.2	+2.4	+2.1	+7.3 Q1	+0.6 Jun	+1.6	+0.7	2.5 Jun‡‡
Turkey	+6.8 Q1	na	+4.6	+5.7	+5.2 May	+8.6 Jun	+10.1	+8.3	11.4 Q1‡‡
Australia	+3.8 Q1	+6.6	+3.5	+3.3	+5.5 Q1	+2.4 Q1	+3.0	+2.3	4.3 Jun
Hong Kong	+5.6 Q1	+2.0	+5.3	+4.9	−1.5 Q1	+1.2 May	+2.1	+2.4	4.3 May††
India	+9.1 Q1	na	+8.1	+7.6	+11.1 May	+6.6 May	+6.3	+5.7	7.6 2006
Indonesia	+6.0 Q1	na	+6.0	+5.8	+8.3 Apr	+5.8 Jun	+15.5	+6.5	9.8 Feb
Malaysia	+5.3 Q1	na	+5.4	+5.6	+3.1 May	+1.4 Jun	+3.9	+2.3	3.4 Q1
Pakistan	+6.6 2006§§	na	+6.8§	+5.9§	+6.8 Sep	+7.0 Jun	+7.6	+6.3§	na
Singapore	+8.2 Q2	+12.8	+5.5	+5.7	+17.7 May	+1.0 May	+1.1	+1.6	2.9 Q1
South Korea	+4.0 Q1	+3.6	+4.3	+4.6	+6.6 May	+2.5 Jun	+2.4	+2.2	3.3 Jun
Taiwan	+4.2 Q1	na	+4.2	+4.6	+6.4 May	+0.1 Jun	+1.7	+1.3	4.0 May
Thailand	+4.3 Q1	+4.9	+4.0	+4.7	+6.3 May	+1.9 Jun	+5.9	+2.5	1.6 Mar
Argentina	+8.0 Q1	+4.1	+7.5	+5.7	+4.0 May	+8.8 Jun	+11.0	+9.8	9.7 Q1‡‡
Brazil	+4.3 Q1	+3.2	+3.9	+3.7	+4.9 May	+3.7 Jun	+4.0	+3.6	10.1 May‡‡
Chile	+5.8 Q1	na	+5.2	+5.1	+3.0 May	+3.2 Jun	+3.9	+2.6	6.7 May†††
Colombia	+8.1 Q1	+10.3	+5.4	+4.6	+13.3 Apr	+6.0 Jun	+3.9	+5.1	11.0 Apr‡‡
Mexico	+2.6 Q1	+0.6	+3.2	+3.8	+1.1 May	+4.0 Jun	+3.2	+3.8	3.2 May‡‡
Venezuela	+8.8 Q1	na	+6.6	+3.9	+6.7 Mar	+19.4 Jun	+11.8	+17.6	8.0 Q2‡‡
Egypt	+7.4 Q1	na	+6.3	+5.6	+10.5 2006	+8.5 Jun	+6.4	+9.9	9.0 Q4‡‡
Israel	+5.4 Q1	+6.3	+4.7	+4.3	+9.1 Apr	−0.7 Jun	+3.5	+0.9	7.7 Q1
Saudi Arabia	+4.3 2006§	na	+3.9§	+5.0§	na	+3.0 May	+2.2	+2.7§	na
South Africa	+5.4 Q1	+4.7	+4.8	+4.9	+6.6 May	+6.9 May	+3.9	+5.4	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+9.8 Q1	+9.5	+9.4§	+5.8§	+6.2 May	+5.8 Jun	+4.3	+5.3§	5.2 May
Finland	+5.4 Q1	+3.4	+2.7§	+2.5§	−2.0 May	+2.5 Jun	+1.7	+1.4§	6.3 May
Iceland	−0.1 Q1	−3.6	+1.0§	+2.2§	+7.6 2006	+3.8 Jul	+8.4	+4.6§	1.1 May‡‡
Ireland	+7.5 Q1	+20.1	+5.0§	+3.4§	+5.8 Apr	+4.9 Jun	+3.9	+4.2§	4.6 Jun
Latvia	+10.7 Q1	na	+9.6§	+7.5§	+3.4 May	+8.8 Jun	+6.3	+7.6§	5.6 May
Lithuania	+8.3 Q1	+6.1	+7.5§	+6.7§	na	+4.8 Jun	+3.7	+2.2§	2.7 Jun
Luxembourg	+5.0 Q4	+7.0	+4.9§	+4.9§	+1.8 Mar	+2.0 Jun	+3.2	+2.2§	4.1 May‡‡
New Zealand	+2.7 Q1	+2.5	+2.8§	+3.1§	nil Q1	+2.0 Q2	+4.0	+2.2§	3.8 Q1
Peru	+7.3 Apr	na	+6.7	+5.6	+10.8 Apr	+1.6 Jun	+1.8	+1.1	8.0 May‡‡
Philippines	+6.9 Q1	+10.3	+5.7	+5.8	−1.3 Apr	+2.3 Jun	+6.7	+3.9	7.4 Q2‡‡
Portugal	+2.1 Q1	+3.2	+1.8§	+2.1§	+3.8 Apr	+2.4 Jun	+3.7	+2.3	8.4 Q1‡‡
Slovakia	+9.0 Q1	na	+8.0§	+6.0§	+17.4 May	+2.5 Jun	+4.6	+2.5	8.3 May
Slovenia	+7.2 Q1	na	+4.6§	+4.1§	+2.5 May	+3.6 Jun	+2.9	+2.7	7.7 May‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.4% in Jun. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Jul 19th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Jul 10th	Jul 17th*	% change on one month	% change on one year
Dollar index				
All items	205.2	203.8	+0.2	+14.9
Food	172.8	171.0	−0.6	+23.7
Industrials				
All	247.1	246.3	+0.8	+8.0
Nfa†	160.9	163.1	−0.5	+4.5
Metals	294.1	291.7	+1.2	+9.1
Sterling index				
All items	153.7	151.2	−2.6	+2.6
Euro index				
All items	138.2	136.7	−2.6	+4.1
Gold				
$ per oz	664.35	666.20	+1.3	+3.0
West Texas Intermediate				
$ per barrel	72.63	74.07	+7.2	+0.4

*Provisional †Non-food agriculturals.

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The world's biggest companies

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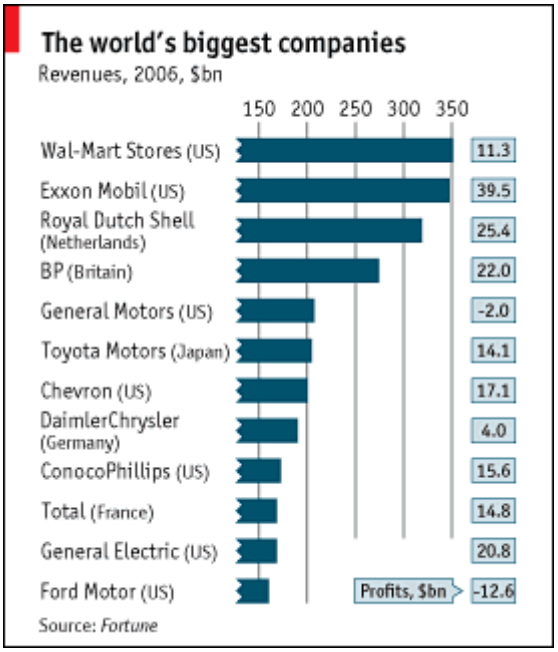
From The Economist print edition

Oil is king. Six of the top 12 public companies on *Fortune's* Global 500 list sell petrol, and four sell the cars (see chart) that consume it. Total revenues for the Global 500 rose by 10% to $21 trillion in the last year, and profits were up 26% at $1.5 trillion. The profit margin of 7% was the highest yet recorded. Although America accounted for a third of the companies on the list, firms from emerging markets are gaining ground. After Toyota, the next three largest Asian companies are Chinese. Globally, banks and other financial firms dominate the next 15 slots on the list. Construction and commodities companies also prospered. Buy-out firms removed many firms from the list, such as HCA and Alliance Boots.



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Trade, exchange rates, budget balances and interest rates

Jul 19th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†‡	Currency units, per $ Jul 18th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−827.1 May	−803.4 Q1	−6.0	–	–	−1.2	5.19	5.00
Japan	+91.4 May	+190.0 May	+3.4	122	117	−4.4	0.66	1.90
China	+229.1 Jun	+249.9 2006	+8.1	7.56	8.00	−0.7	3.14	4.12
Britain	−155.2 May	−93.0 Q1	−3.2	0.49	0.54	−2.7	6.00	5.43
Canada	+48.0 May	+18.5 Q1	+1.6	1.04	1.13	0.6	4.49	4.60
Euro area	+15.9 May	+8.1 Apr	nil	0.72	0.80	−0.9	4.22	4.55
Austria	+0.7 Apr	+13.2 Q1	+2.9	0.72	0.80	−0.8	4.22	4.63
Belgium	+18.2 May	+11.2 Mar	+2.1	0.72	0.80	nil	4.28	4.64
France	−36.1 May	−31.7 May	−1.2	0.72	0.80	−2.8	4.22	4.61
Germany	+234.6 May	+175.4 May	+4.9	0.72	0.80	0.3	4.22	4.54
Greece	−46.6 Apr	−33.2 Apr	−8.4	0.72	0.80	−2.4	4.22	4.82
Italy	−21.2 May	−48.4 Apr	−2.0	0.72	0.80	−2.6	4.22	4.79
Netherlands	+45.3 May	+16.8 Q1	+7.8	0.72	0.80	0.6	4.22	4.59
Spain	−118.5 Apr	−115.9 Apr	−8.6	0.72	0.80	1.1	4.22	4.64
Czech Republic	+2.8 May	−5.3 May	−3.8	20.5	22.6	−4.0	3.06	4.59
Denmark	+5.4 May	+5.3 May	+2.3	5.39	5.94	3.8	4.41	4.61
Hungary	−0.4 May	−6.2 Q1	−4.7	178	221	−6.5	7.58	6.60
Norway	+54.7 Jun	+57.3 Q1	+14.3	5.73	6.34	16.8	4.88	5.11
Poland	−7.5 May	−10.2 May	−2.6	2.72	3.17	−2.4	4.77	5.58
Russia	+128.3 May	+77.7 Q2	+5.7	25.4	27.0	2.4	10.00	6.04
Sweden	+19.5 May	+29.8 Q1	+6.9	6.64	7.36	2.4	3.43	4.46
Switzerland	+11.0 Jun	+102.1 Q1	+14.4	1.20	1.25	0.3	2.71	3.18
Turkey	−53.4 May	−31.0 May	−7.0	1.28	1.56	−2.8	18.86	6.65§
Australia	−9.9 May	−43.8 Q1	−5.4	1.14	1.34	1.3	6.44	6.15
Hong Kong	−18.9 May	+23.2 Q1	+9.8	7.82	7.78	2.7	4.41	4.59
India	−63.2 May	−9.6 Q1	−1.8	40.4	47.0	−3.3	5.10	8.14
Indonesia	+41.4 May	+10.3 Q1	+2.2	9,100	9,255	−1.6	8.28	6.74§
Malaysia	+28.5 May	+26.0 Q1	+13.5	3.45	3.70	−3.4	3.62	5.53§
Pakistan	−13.6 May	−6.8 Q1	−5.7	60.4	60.3	−3.8	9.47	7.72§
Singapore	+35.5 Jun	+38.1 Q1	+23.3	1.52	1.59	0.3	2.50	2.99
South Korea	+18.7 Jun	+4.6 May	+0.2	916	958	0.5	5.07	5.46
Taiwan	+13.8 Jun	+28.1 Q1	+6.7	32.8	32.9	−2.2	2.55	2.63
Thailand	+7.7 May	+9.6 May	+2.1	33.5	38.1	−1.9	3.75	4.14
Argentina	+11.3 May	+7.8 Q1	+2.5	3.10	3.08	1.2	9.50	na
Brazil	+47.4 Jun	+14.9 May	+0.8	1.86	2.18	−2.4	11.93	6.16§
Chile	+25.5 Jun	+7.1 Q1	+1.3	516	542	5.5	5.40	5.60§
Colombia	−0.9 Apr	−4.1 Q1	−2.7	1,927	2,542	−0.9	8.35	6.23§
Mexico	−11.3 May	−5.5 Q1	−1.4	10.7	10.9	0.1	7.19	7.65
Venezuela	+28.2 Q1	+23.8 Q1	+9.8	2,147	2,637	−4.1	10.08	6.55§
Egypt	−14.1 Q1	+3.3 Q1	+1.5	5.68	5.75	−5.5	6.88	5.74§
Israel	−7.8 Jun	+8.1 Q1	+3.6	4.26	4.46	−0.8	3.73	5.19
Saudi Arabia	+148.5 2006	+95.4 2006	+21.4	3.75	3.75	16.6	5.04	na
South Africa	−9.2 May	−16.6 Q1	−6.0	6.96	7.11	0.5	9.95	8.46
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.9 Apr	−3.1 Apr	−16.0	11.3	12.5	1.7	4.72	na
Finland	+12.6 May	+12.6 May	+5.7	0.72	0.80	2.5	4.17	4.61
Iceland	−1.9 May	−4.0 Q1	−17.4	59.5	74.0	2.8	13.85	na
Ireland	+35.2 Apr	−10.6 Q1	−5.0	0.72	0.80	0.5	4.22	4.62
Latvia	−6.0 May	−5.6 May	−20.0	0.50	0.55	nil	5.77	na
Lithuania	−6.3 May	−3.9 May	−12.5	2.50	2.75	−0.5	5.00	na
Luxembourg	−5.3 Apr	+4.5 Q1	na	0.72	0.80	0.3	4.22	na
New Zealand	−3.9 May	−9.1 Q1	−10.2	1.26	1.61	3.2	7.10	6.88
Peru	+8.9 May	+2.7 Q1	+1.8	3.16	3.24	0.4	4.75	na
Philippines	−3.7 Apr	+5.7 Mar	+3.6	45.3	52.7	−1.1	6.38	na
Portugal	−23.0 Apr	−17.2 Apr	−7.9	0.72	0.80	−3.3	4.22	4.74
Slovakia	−2.0 May	−3.8 Mar	−4.3	24.0	30.6	−2.9	4.14	4.65
Slovenia	−2.3 May	−1.5 Apr	−2.0	0.72	0.80	−1.2	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Jul 19th 2007
From The Economist print edition

Markets

	Index Jul 18th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,918.2	+2.5	+11.7	+11.7
United States (S&P 500)	1,546.2	+1.8	+9.0	+9.0
United States (NAScomp)	2,699.5	+1.8	+11.8	+11.8
Japan (Nikkei 225)	18,015.6	–0.2	+4.6	+2.3
Japan (Topix)	1,758.7	–0.5	+4.6	+2.3
China (SSEA)	4,123.3	+1.6	+46.5	+51.1
China (SSEB, $ terms)	274.5	+5.8	+104.5	+111.0
Britain (FTSE 100)	6,567.1	–0.7	+5.6	+10.7
Canada (S&P TSX)	14,583.7	+2.9	+13.0	+26.2
Euro area (FTSE Euro 100)	1,405.5	+0.5	+9.9	+15.1
Euro area (DJ STOXX 50)	4,472.2	+0.6	+8.6	+13.7
Austria (ATX)	4,830.2	–0.8	+8.2	+13.3
Belgium (Bel 20)	4,569.0	–0.5	+4.1	+9.0
France (CAC 40)	5,996.0	–0.1	+8.2	+13.3
Germany (DAX)*	7,893.6	–0.1	+19.7	+25.3
Greece (Athex Comp)	5,086.9	+2.5	+15.8	+21.2
Italy (S&P/MIB)	41,755.0	–0.1	+0.8	+5.5
Netherlands (AEX)	555.6	+0.4	+12.2	+17.5
Spain (Madrid SE)	1,656.5	+1.8	+6.5	+11.6
Czech Republic (PX)	1,864.0	nil	+17.3	+19.7
Denmark (OMXCB)	488.7	+1.5	+15.2	+20.9
Hungary (BUX)	29,893.5	+3.7	+20.3	+28.8
Norway (OSEAX)	597.2	+0.9	+18.9	+29.2
Poland (WIG)	64,971.6	–1.3	+28.9	+37.6
Russia (RTS, $ terms)	2,036.6	+2.1	+2.3	+6.0
Sweden (Aff.Gen)	411.9	+0.6	+12.7	+16.1
Switzerland (SMI)	9,074.1	–1.5	+3.3	+5.1
Turkey (ISE)	51,112.0	+2.1	+30.7	+44.9
Australia (All Ord.)	6,367.2	+0.1	+12.8	+25.5
Hong Kong (Hang Seng)	22,841.9	+1.0	+14.4	+13.8
India (BSE)	15,301.2	+2.6	+11.0	+21.6
Indonesia (JSX)	2,294.6	+0.9	+27.1	+25.6
Malaysia (KLSE)	1,369.2	+0.7	+24.9	+27.7
Pakistan (KSE)	13,659.8	–2.2	+36.0	+37.2
Singapore (STI)	3,584.0	–0.3	+20.0	+21.5
South Korea (KOSPI)	1,930.7	+2.2	+34.6	+36.6
Taiwan (TWI)	9,485.4	+2.1	+21.2	+20.3
Thailand (SET)	849.6	+0.4	+25.0	+34.9
Argentina (MERV)	2,247.8	–0.8	+7.5	+6.3
Brazil (BVSP)	57,555.0	+2.1	+29.4	+48.8
Chile (IGPA)	14,946.6	+0.5	+20.8	+24.6
Colombia (IGBC)	11,219.6	+3.8	+0.5	+16.9
Mexico (IPC)	31,886.7	–0.1	+20.6	+21.4
Venezuela (IBC)	41,305.5	+0.9	–20.9	+23.1
Egypt (Hermes)	74,142.7	+0.5	+21.0	+21.6
Israel (TA-100)	1,143.3	+1.0	+24.0	+22.6
Saudi Arabia (Tadawul)	7,501.6	+0.7	–5.4	–5.4
South Africa (JSE AS)	29,422.7	–0.7	+18.1	+19.6
Europe (FTSEurofirst 300)	1,603.0	+0.1	+8.1	+13.2
World, dev'd (MSCI)	1,643.9	+1.2	+10.8	+10.8
Emerging markets (MSCI)	1,132.2	+1.7	+24.1	+24.1
World, all (MSCI)	411.7	+1.2	+11.9	+11.9
World bonds (Citigroup)	667.1	+0.4	+1.3	+1.3
EMBI+ (JPMorgan)	411.9	+0.2	+1.1	+1.1
Hedge funds (HFRX)	1,381.1	+0.8	+8.3	+8.3
Volatility, US (VIX)	16.0	16.6	11.6	(levels)
CDSs, Eur (iTRAXX)†	32.8	+0.8	+40.5	+47.2
CDSs, N Am (CDX)†	48.1	+0.2	+43.9	+43.9
Carbon trading (EU ETS) €	0.10	+11.1	–98.4	–98.3

*Total return index. †Credit-default swap spreads, basis points. Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS;

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Health spending

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Health spending in the OECD keeps growing faster than countries' economies. Between 1990 and 2005, per capita health spending, from public and private sources, grew by more than twice as much as per capita GDP. One in four OECD countries now spends more than 10% of its income on health. America is the biggest spender, devoting 15.3% of national income to health; followed by Switzerland (11.6%), France (11.1%) and Germany (10.7%). The increased health spending is straining public coffers and patients' wallets. As long as health spending outpaces economic growth, governments have tough choices to make. They can raise taxes, reduce other spending or make people pay more out of their own pockets.

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